Table 16 • Changes in Allowance for Credit Losses – Segmented Information ($ millions, except as noted)

	Canada					United States					Other countries				
As at October 31	**2007**	2006	2005	2004	2003	**2007**	2006	2005	2004	2003	**2007**	2006	2005	2004	2003
Allowance for credit losses (ACL), beginning of year	**651**	687	762	1,013	1,200	**403**	435	514	661	700	**4**	6	32	117	49
Provision for credit losses	**257**	181	192	(1)	211	**99**	(3)	14	(46)	211	**(3)**	(2)	(27)	(56)	33
Transfer of allowance	**5**	–	–	–	(70)	**7**	–	–	–	5	**–**	–	–	–	65
Recoveries	**53**	47	37	35	28	**38**	65	30	94	60	**–**	–	–	2	–
Write-offs	**(274)**	(263)	(303)	(283)	(341)	**(117)**	(75)	(116)	(157)	(211)	**–**	–	–	(30)	(14)
Other, including foreign exchange rate changes	**–**	(1)	(1)	(2)	(15)	**(68)**	(19)	(7)	(38)	(104)	**–**	–	1	(1)	(16)
Allowance for credit losses, end of year	**692**	651	687	762	1,013	**362**	403	435	514	661	**1**	4	6	32	117
Allocation of Write-offs by Market															
Consumer	**(246)**	(229)	(219)	(185)	(155)	**(43)**	(38)	(27)	(21)	(23)	**–**	–	–	–	–
Commercial and corporate	**(28)**	(34)	(84)	(98)	(186)	**(74)**	(37)	(89)	(136)	(188)	**–**	–	–	(30)	(14)
Allocation of Recoveries by Market															
Consumer	**50**	39	33	29	26	**22**	21	16	12	10	**–**	–	–	–	–
Commercial and corporate	**3**	8	4	6	2	**16**	44	14	82	50	**–**	–	–	2	–
Net write-offs as a % of average loans and acceptances	**un**	un	un	un	un	**un**	un	un	un	un	**un**	un	un	un	un

Table 17 • Allocation of Allowance for Credit Losses – Segmented Information ($ millions, except as noted)

	Canada					United States					Other countries				
As at October 31	**2007**	2006	2005	2004	2003	**2007**	2006	2005	2004	2003	**2007**	2006	2005	2004	2003
Consumer															
Residential mortgages	**14**	5	5	5	5	**–**	–	–	–	–	**–**	–	–	–	–
Consumer instalment and other personal loans	**1**	1	1	2	2	**–**	–	–	–	–	**–**	–	–	–	–
Total consumer	**15**	6	6	7	7	**–**	–	–	–	–	**–**	–	–	–	–
Commercial and corporate	**90**	90	91	125	200	**51**	53	66	134	281	**1**	4	6	32	117
Off-balance sheet	**–**	–	–	–	6	**–**	–	–	–	–	**–**	–	–	–	–
Total specific allowance	**105**	96	97	132	213	**51**	53	66	134	281	**1**	4	6	32	117
General allowance	**587**	555	590	630	800	**311**	350	369	380	380	**–**	–	–	–	–
Allowance for credit losses	**692**	651	687	762	1,013	**362**	403	435	514	661	**1**	4	6	32	117
Coverage Ratios															
ACL as a % of gross impaired loans and acceptances															
Total	**152.4**	166.5	179.4	163.9	167.3	**138.2**	155.0	109.6	91.8	62.8	**25.0**	26.7	25.0	34.0	44.3
Consumer	**8.3**	3.8	4.8	4.5	3.8	**–**	–	–	–	–	**na**	na	na	na	na
Commercial and corporate	**33.0**	38.6	35.4	40.6	47.7	**19.5**	20.8	35.4	24.1	26.8	**25.0**	26.7	25.0	34.0	44.3

un – unavailable

na – not applicable

Total				
2007	2006	2005	2004	2003
1,058	1,128	1,308	1,791	1,949
353	176	179	(103)	455
12	–	–	–	–
91	112	67	131	88
(391)	(338)	(419)	(470)	(566)
(68)	(20)	(7)	(41)	(135)
1,055	1,058	1,128	1,308	1,791
(289)	(267)	(246)	(206)	(178)
(102)	(71)	(173)	(264)	(388)
72	60	49	41	36
19	52	18	90	52
0.1	0.1	0.2	0.2	0.3

Total				
2007	2006	2005	2004	2003
14	5	5	5	5
1	1	1	2	2
15	6	6	7	7
142	147	163	291	598
–	–	–	–	6
157	153	169	298	611
898	905	959	1,010	1,180
1,055	1,058	1,128	1,308	1,791
146.5	158.8	140.2	116.9	93.1
8.3	3.7	4.6	4.3	3.7
26.3	29.2	24.2	30.4	34.6

Table 18 • Provision for Credit Losses – Segmented Information ($ millions)

For the year ended October 31	**2007**	2006	2005	2004	2003
Consumer					
Residential mortgages	**11**	7	3	3	8
Cards	**137**	132	141	106	78
Consumer instalment and other personal loans	**81**	67	53	60	55
	229	206	197	169	141
Commercial and Corporate (1)					
Commercial mortgages	**–**	–	4	2	1
Commercial real estate	**14**	(2)	2	6	(16)
Construction (non-real estate)	**1**	(2)	9	9	1
Retail trade	**7**	(5)	15	2	(7)
Wholesale trade	**7**	4	13	9	(1)
Agriculture	**5**	2	4	20	5
Communications	**–**	(6)	(34)	(12)	7
Manufacturing	**(9)**	20	23	(37)	116
Mining	**–**	–	–	(1)	10
Oil and gas	**–**	–	–	(4)	(18)
Transportation	**4**	7	13	(17)	29
Utilities	**–**	(19)	(26)	(87)	69
Forest products	**–**	(1)	–	(7)	37
Service industries	**2**	2	5	13	58
Financial institutions	**40**	(1)	(1)	13	2
Other	**3**	6	(5)	(11)	21
	74	5	22	(102)	314
Total specific provisions	**303**	211	219	67	455
Change in general allowance	**50**	(35)	(40)	(170)	–
Total provision for credit losses	**353**	176	179	(103)	455

(1) There have been no provisions for credit losses on securities borrowed or purchased under resale agreements.

Supplemental Information

Table 19 • Specific Allowance for Credit Losses – Segmented Information ($ millions)

As at October 31	**2007**	2006	2005	2004	2003
Commercial and Corporate Specific Allowance by Industry					
Commercial mortgages	**–**	–	–	–	–
Commercial real estate	**25**	7	6	4	3
Construction (non-real estate)	**4**	3	4	20	2
Retail trade	**7**	9	18	7	8
Wholesale trade	**17**	21	20	14	40
Agriculture	**13**	9	13	12	7
Communications	**–**	1	2	46	85
Manufacturing	**35**	57	53	79	158
Mining	**–**	–	–	–	–
Oil and gas	**–**	–	1	–	2
Transportation	**5**	11	3	6	36
Utilities	**–**	–	–	46	141
Forest products	**2**	2	2	8	34
Service industries	**17**	19	26	23	49
Financial institutions	**10**	1	7	10	21
Other	**7**	7	8	16	12
Total specific allowance for credit losses on commercial and corporate loans	**142**	147	163	291	598

Table 20 • Capital Adequacy ($ millions, except as noted)

As at October 31	**2007**	2006	2005	2004	2003
Tier 1 capital					
Common shareholders' equity	**14,233**	14,465	13,246	12,120	11,036
Non-cumulative preferred shares (1)	**1,446**	1,046	1,046	1,046	1,446
Innovative Tier 1 capital instruments (1) (2)	**2,422**	2,192	2,192	1,745	1,150
Non-controlling interest in subsidiaries	**33**	36	37	44	39
Goodwill and excess intangible assets (3)	**(1,140)**	(1,098)	(1,091)	(1,507)	(1,334)
Total Tier 1 capital	**16,994**	16,641	15,430	13,448	12,337
Tier 2 capital					
Preferred shares of a subsidiary (2)	**–**	273	287	296	320
Subordinated debt	**3,335**	2,306	2,130	1,783	1,981
Trust subordinated notes	**800**	–	–	–	–
Accumulated unrealized gain from Available-For-Sale Equity Securities	**26**	–	–	–	–
General allowance for credit losses (4)	**898**	905	958	1,010	1,130
Total Tier 2 capital	**5,059**	3,484	3,375	3,089	3,431
First loss protection	**(85)**	(44)	(123)	(128)	(149)
Investment in non-consolidated subsidiaries/substantial investments	**(994)**	(937)	(963)	(901)	–
Total capital	**20,974**	19,144	17,719	15,508	15,619
Risk-weighted assets	**178,687**	162,794	149,855	136,661	129,163
Capital ratios (%)					
Tier 1 Capital Ratio	**9.51**	10.22	10.30	9.84	9.55
Total Capital Ratio	**11.74**	11.76	11.82	11.35	12.09
Assets-to-capital multiple	**17.2**	16.1	16.3	16.8	16.4

(1) Non-cumulative preferred shares and Innovative Tier 1 capital instruments include amounts that were reclassified to liabilities on the consolidated balance sheet, but are eligible for inclusion in the capital calculation for regulatory purposes.

(2) In the fourth quarter of 2007, OSFI approved the reclassification of preferred shares issued by a subsidiary from Tier 2 capital to Innovative Tier 1 capital under a new OSFI Advisory released in the third quarter of 2007.

(3) In addition to goodwill, intangible assets in excess of 5% of gross Tier 1 capital are deducted from Tier 1 capital as required by OSFI guidelines.

(4) OSFI permits the inclusion of the lesser of the balance of our general allowance for credit losses and 0.875% of risk-weighted assets.

Table 21 • Risk-Weighted Assets ($ millions, except as noted)

As at October 31				**2007**	2006
	Balance	**Credit risk equivalent**	**Risk weighting (%)**	**Risk-weighted balance**	Risk-weighted balance
Balance sheet items					
Cash resources	**22,890**	**22,890**	**0–20**	**4,324**	3,747
Securities	**98,277**	**98,277**	**0–100**	**5,236**	4,324
Mortgages	**58,372**	**58,372**	**0–100**	**16,652**	25,625
Other loans and acceptances	**142,816**	**142,816**	**0–100**	**96,661**	84,299
Other assets	**44,169**	**44,169**	**0–100**	**7,706**	6,986
Total balance sheet items	**366,524**	**366,524**		**130,579**	124,981
Off-balance sheet items					
Guarantees and standby letters of credit	**12,395**	**10,663**	**0–100**	**7,270**	7,542
Securities lending	**1,834**	**298**	**0–100**	**59**	21
Documentary and commercial letters of credit	**1,301**	**260**	**0–100**	**116**	207
Commitments to extend credit:					
Original maturity of one year and under	**66,126**	**3,531**	**0–100**	**3,531**	–
Original maturity of over one year	**28,372**	**14,186**	**0–100**	**13,066**	13,543
Derivative financial instruments	**2,694,284**	**32,592**	**0–50**	**8,913**	7,542
Total off-balance sheet items	**2,804,312**	**61,530**		**32,955**	28,855
Total risk-weighted assets – credit risk				**163,534**	153,836
Total risk-weighted assets – market risk				**15,153**	8,958
Total risk-weighted assets				**178,687**	162,794

Table 22 • Average Deposits ($ millions, except as noted)

	2007		2006		2005	
	Average balance	**Average rate paid (%)**	Average balance	Average rate paid (%)	Average balance	Average rate paid (%)
Deposits Booked in Canada						
Demand deposits – interest bearing	**9,400**	**2.94**	7,934	2.18	7,933	1.14
Demand deposits – non-interest bearing	**13,076**	**–**	12,189	–	10,861	–
Payable after notice	**36,255**	**2.32**	35,678	1.91	37,287	1.39
Payable on a fixed date	**80,220**	**3.66**	74,649	3.17	68,019	2.33
Total deposits booked in Canada	**138,951**	**2.92**	130,450	2.47	124,100	1.77
Deposits Booked in the United States and Other Countries						
U.S. demand deposits	**8,675**	**3.84**	8,644	2.98	9,930	1.56
Other U.S. deposits payable after notice or on a fixed date	**46,277**	**4.40**	34,206	3.64	31,051	2.21
Deposits booked in other countries	**30,473**	**4.85**	23,919	4.26	21,607	3.08
Total Average Deposits	**224,376**	**3.52**	197,219	2.91	186,688	1.98

As at October 31, 2007, 2006 and 2005: deposits by foreign depositors in our Canadian bank offices amounted to $11,544 million, $9,320 million and $9,515 million, respectively; total deposits payable after notice included $21,477 million, $18,947 million and $18,766 million, respectively, of chequing accounts that would have been classified as demand deposits under U.S. reporting requirements; and total deposits payable on a fixed date included $29,318 million, $24,513 million and $21,477 million, respectively, of federal funds purchased and commercial paper issued. These amounts would have been classified as short-term borrowings for U.S. reporting purposes.

Table 23 • Unrealized Gains (Losses) on Securities, Other Than Trading ($ millions)

			Unrealized gains (losses) (1)				
As at October 31	**Amortized cost**	**Fair value**	**2007**	2006	2005	2004	2003
Canadian governments debt	**928**	**928**	**–**	–	–	–	1
U.S. governments debt	**10,199**	**10,207**	**8**	(29)	(23)	–	134
Mortgage-backed securities – Canada	**8,882**	**8,902**	**20**	–	–	–	–
– United States	**368**	**362**	**(6)**	(10)	(7)	4	15
Corporate debt	**4,779**	**4,776**	**(3)**	3	6	21	89
Corporate equity	**2,207**	**2,233**	**26**	90	20	60	71
Other governments debt	**96**	**96**	**–**	1	1	1	2
Total securities, other than trading	**27,459**	**27,504**	**45**	55	(3)	86	312

(1) Unrealized gains (losses) may be offset by related losses (gains) on liabilities or hedge contracts.

Table 24 • Contractual Obligations ($ millions)

As at October 31, 2007	Less than one year	1–3 years	4–5 years	Over 5 years	No fixed maturity	Total
Subordinated debt	–	140	–	4,100	–	4,240
Operating leases	199	319	221	557	–	1,296
Deposits (1)	119,931	22,249	7,840	3,383	78,647	232,050
Capital trust securities (2)	–	350	800	1,050	–	2,200
Purchase obligations (3)	182	361	356	392	–	1,291
Total	120,312	23,419	9,217	9,482	78,647	241,077

(1) Includes fixed maturity deposits of $20.5 billion that are redeemable at the customers' option under certain conditions.
(2) Represents Innovative Tier 1 capital instruments.
(3) BMO has entered into three major outsourcing contracts. In 2006, BMO entered into a six-year contract with an external service provider to provide application system maintenance and development services. In 2003, BMO entered into a ten-year contract with an external service provider to provide human resource transactional business processing. In 2000, BMO entered into a five-year contract with two optional five-year renewals with an external service provider to manage our cheque and bill payment processing, including associated statement and report printing activities. All outsourcing contracts are cancellable with notice.

Statement of Management's Responsibility for Financial Information

The management of Bank of Montreal (the "Bank") is responsible for preparation and presentation of the annual consolidated financial statements, Management's Discussion and Analysis ("MD&A") and all other information in the Annual Report.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the requirements of the Securities and Exchange Commission ("SEC") in the United States, as applicable. The financial statements also comply with the provisions of the *Bank Act* and related regulations, including interpretations of GAAP by our regulator, the Superintendent of Financial Institutions Canada.

The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators ("CSA") as well as Item 303 of Regulation S-K of the *Securities Exchange Act*, and their related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

In meeting our responsibility for the reliability and timeliness of financial information, we maintain and rely on a comprehensive system of internal controls and internal audit, including organizational and procedural controls, disclosure controls and procedures and internal control over financial reporting. Our system of internal controls includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; escalation of relevant information for decisions regarding public disclosure; careful selection and training of personnel; and accounting policies that we regularly update. This structure ensures appropriate internal controls over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

As at October 31, 2007 we, as Bank of Montreal's Chief Executive Officer and Executive Vice-President, Finance and Treasurer and Acting Chief Financial Officer, have determined that the Bank's internal control over financial reporting is effective. We have certified Bank of Montreal's annual filings with the CSA and the SEC as required in Canada by Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings) and in the United States by the *Securities Exchange Act of 1934*.

In order to provide their opinions on our consolidated financial statements and on the Bank's internal control over financial reporting, the Shareholders' Auditors review our system of internal controls and conduct work to the extent that they consider appropriate.

The Board of Directors, based on recommendations from its Audit and Risk Review Committees, reviews and approves the financial information contained in the Annual Report, including the MD&A. The Board of Directors and its relevant Committees oversee management's responsibilities for the preparation and presentation of financial information, maintenance of appropriate internal controls, compliance with legal and regulatory requirements, management and control of major risk areas and assessment of significant and related party transactions.

The Audit Committee, which is comprised entirely of independent directors, is also responsible for selecting the Shareholders' Auditors and reviewing the qualifications, independence and performance of both the Shareholders' Auditors and internal audit. The Shareholders' Auditors and the Bank's Chief Auditor have full and free access to the Board of Directors and its Audit and other relevant Committees to discuss audit, financial reporting and related matters.

William A. Downe
President and Chief Executive Officer

Thomas E. Flynn
Executive Vice-President, Finance and Treasurer
and Acting Chief Financial Officer

Canada
November 27, 2007

Shareholders' Auditors' Reports

To the Shareholders of Bank of Montreal

We have audited the consolidated balance sheets of Bank of Montreal (the "Bank") as at October 31, 2007 and 2006 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended October 31, 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. With respect to the consolidated financial statements for the years ended October 31, 2007 and 2006, we also conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2007 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
November 27, 2007

To the Shareholders and Board of Directors of Bank of Montreal

We have audited Bank of Montreal's (the "Bank") internal control over financial reporting as of October 31, 2007, based on the criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Bank's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included on page 63 of Management's Discussion and Analysis. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of October 31, 2007, based on the criteria established in *Internal Control – Integrated Framework* issued by COSO.

We also have conducted audits of the consolidated financial statements of the Bank for each of the years in the three-year period ended October 31, 2007 in accordance with Canadian generally accepted auditing standards. With respect to the consolidated financial statements for each of the years in the two-year period ended October 31, 2007, we also have conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our report dated November 27, 2007 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
November 27, 2007

Consolidated Balance Sheet

As at October 31 (Canadian $ in millions)	2007	2006
Assets		
Cash Resources (Notes 2 and 28)	$ 22,890	$ 19,608
Securities (Notes 3 and 28)		
Trading	70,773	51,820
Investment (fair value $14,221 in 2006)	–	14,166
Available-for-sale	26,010	–
Other	1,494	1,414
Loan substitutes	–	11
	98,277	67,411
Loans (Notes 4, 7 and 28)		
Residential mortgages	52,429	63,321
Consumer instalment and other personal	33,189	30,418
Credit cards	4,493	3,631
Businesses and governments	62,650	56,030
Securities borrowed or purchased under resale agreements	37,093	31,429
	189,854	184,829
Customers' liability under acceptances	12,389	7,223
Allowance for credit losses	(1,055)	(1,058)
	201,188	190,994
Other Assets		
Derivative instruments (Note 9)	32,585	30,411
Premises and equipment (Note 10)	1,980	2,047
Goodwill (Note 13)	1,140	1,098
Intangible assets (Note 13)	124	152
Other (Note 14)	8,340	8,257
	44,169	41,965
Total Assets	$ 366,524	$ 319,978
Liabilities and Shareholders' Equity		
Deposits (Note 15)		
Banks	$ 34,100	$ 26,632
Businesses and governments	121,748	100,848
Individuals	76,202	76,368
	232,050	203,848
Other Liabilities		
Derivative instruments (Note 9)	33,584	31,446
Acceptances (Note 16)	12,389	7,223
Securities sold but not yet purchased (Note 16)	25,039	15,398
Securities lent or sold under repurchase agreements (Note 16)	31,263	31,918
Other (Note 16)	12,055	10,758
	114,330	96,743
Subordinated Debt (Note 18)	3,446	2,726
Preferred Share Liability (Note 21)	250	450
Capital Trust Securities (Note 19)	1,150	1,150
Shareholders' Equity		
Share capital (Note 21)	5,607	4,827
Contributed surplus (Note 22)	58	49
Retained earnings	11,166	10,974
Accumulated other comprehensive loss (Note 1)	(1,533)	(789)
	15,298	15,061
Total Liabilities and Shareholders' Equity	$ 366,524	$ 319,978

The accompanying notes to consolidated financial statements are an integral part of these statements.
Certain comparative figures have been reclassified to conform with the current year's presentation.

William A. Downe
President and Chief Executive Officer

Philip S. Orsino
Chairman, Audit Committee

Consolidated Statement of Income

For the Year Ended October 31 (Canadian $ in millions, except as noted)	2007	2006	2005
			Restated (see Note 22)
Interest, Dividend and Fee Income			
Loans	$ 11,557	$ 9,985	$ 7,728
Securities (Note 3)	3,153	2,158	1,830
Deposits with banks	1,128	769	606
	15,838	12,912	10,164
Interest Expense			
Deposits	7,905	5,743	3,703
Subordinated debt	180	169	202
Preferred shares and capital trust securities (Notes 19 and 21)	99	99	97
Other liabilities	2,811	2,157	1,375
	10,995	8,168	5,377
Net Interest Income	4,843	4,744	4,787
Provision for credit losses (Note 4)	353	176	179
Net Interest Income After Provision for Credit Losses	4,490	4,568	4,608
Non-Interest Revenue			
Securities commissions and fees	1,145	1,051	1,092
Deposit and payment service charges	728	729	734
Trading revenues (losses)	(487)	718	496
Lending fees	406	337	313
Card fees (Note 16)	107	396	334
Investment management and custodial fees	322	298	305
Mutual fund revenues	576	499	437
Securitization revenues (Note 7)	296	100	113
Underwriting and advisory fees	528	407	357
Securities gains, other than trading (Note 3)	246	145	165
Foreign exchange, other than trading	132	102	97
Insurance income	230	204	162
Other	277	255	447
	4,506	5,241	5,052
Net Interest Income and Non-Interest Revenue	8,996	9,809	9,660
Non-Interest Expense			
Employee compensation (Notes 22 and 23)	3,825	3,824	3,751
Premises and equipment (Note 10)	1,303	1,211	1,264
Amortization of intangible assets (Note 13)	46	44	94
Travel and business development	287	253	247
Communications	149	131	122
Business and capital taxes	47	94	107
Professional fees	301	287	243
Other	484	509	504
	6,442	6,353	6,332
Restructuring Charge (Note 17)	159	–	–
Income Before Provision for Income Taxes and Non-Controlling Interest in Subsidiaries	2,395	3,456	3,328
Income taxes (Note 24)	189	717	874
	2,206	2,739	2,454
Non-controlling interest in subsidiaries (Notes 16 and 19)	75	76	58
Net Income	$ 2,131	$ 2,663	$ 2,396
Preferred share dividends (Note 21)	$ 43	$ 30	$ 30
Net income available to common shareholders	$ 2,088	$ 2,633	$ 2,366
Average common shares (in thousands)	499,950	501,257	500,060
Average diluted common shares (in thousands)	508,614	511,173	510,845
Earnings Per Share (Canadian $) (Note 25)			
Basic	$ 4.18	$ 5.25	$ 4.73
Diluted	4.11	5.15	4.63
Dividends Declared Per Common Share	2.71	2.26	1.85

The accompanying notes to consolidated financial statements are an integral part of these statements.
Certain comparative figures have been reclassified to conform with the current year's presentation.

Consolidated Statement of Comprehensive Income

For the Year Ended October 31 (Canadian $ in millions)	2007	2006	2005
Net income	$ 2,131	$ 2,663	$ 2,396
Other Comprehensive Income			
Net change in unrealized gains on available-for-sale securities	32	–	–
Net change in unrealized losses on cash flow hedges	(115)	–	–
Net loss on translation of net foreign operations	(613)	(177)	(115)
Total Comprehensive Income	$ 1,435	$ 2,486	$ 2,281

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended October 31 (Canadian $ in millions, except as noted)	Number of Shares 2007	Number of Shares 2006	Number of Shares 2005	2007	2006	2005 Restated (see Note 22)
Preferred Shares (Note 21)						
Balance at beginning of year				$ 596	$ 596	$ 596
Issued during the year				600	–	–
Balance at End of Year				1,196	596	596
Common Shares (Note 21)						
Balance at beginning of year	500,726,079	500,219,068	500,896,857	4,231	4,022	3,857
Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan (Note 21)	1,626,374	1,378,328	1,258,463	113	89	71
Issued under the Stock Option Plan (Note 22)	3,774,644	5,014,557	4,736,826	132	169	146
Issued on the exchange of shares of a subsidiary corporation (Note 21)	57,205	33,526	284,722	1	–	2
Repurchased for cancellation (Note 21)	(7,621,600)	(5,919,400)	(6,957,800)	(66)	(49)	(54)
Balance at End of Year	498,562,702	500,726,079	500,219,068	4,411	4,231	4,022
Contributed Surplus						
Balance at beginning of year				49	35	22
Stock option expense (Note 22)				9	14	13
Balance at End of Year				58	49	35
Retained Earnings						
Balance at beginning of year				10,974	9,801	8,738
Cumulative impact of adopting new accounting requirements for financial instruments (net of income taxes of $39) (Note 1)				(71)	–	–
Cumulative impact of adopting new accounting requirements for Variable Interest Entities (net of income taxes) (Note 8)				–	–	(42)
Net income				2,131	2,663	2,396
Dividends – Preferred shares (Note 21)				(43)	(30)	(30)
– Common shares (Note 21)				(1,353)	(1,133)	(925)
Common shares repurchased for cancellation (Note 21)				(458)	(327)	(336)
Share issue expense				(14)	–	–
Balance at End of Year				11,166	10,974	9,801
Accumulated Other Comprehensive Income on Available-for-Sale Securities						
Balance at beginning of year				–	–	–
Impact of remeasuring available-for-sale securities to market value on November 1, 2006 (net of income taxes of $1)				3	–	–
Unrealized gains on available-for-sale securities arising during the year (net of income taxes of $6)				15	–	–
Reclassification to earnings of realized losses in the year (net of income taxes of $12)				17	–	–
Balance at End of Year				35	–	–
Accumulated Other Comprehensive Loss on Cash Flow Hedges						
Balance at beginning of year				–	–	–
Impact of adopting new cash flow hedge accounting rules on November 1, 2006 (net of income taxes of $28)				(51)	–	–
Losses on cash flow hedges arising during the year (net of income taxes of $64)				(128)	–	–
Reclassification to earnings of losses on cash flow hedges (net of income taxes of $6)				13	–	–
Balance at End of Year				(166)	–	–
Accumulated Other Comprehensive Loss on Translation of Net Foreign Operations						
Balance at beginning of year				(789)	(612)	(497)
Unrealized loss on translation of net foreign operations				(1,697)	(472)	(311)
Impact of hedging unrealized loss on translation of net foreign operations (net of income taxes of $575, $156 and $101)				1,084	295	196
Balance at End of Year				(1,402)	(789)	(612)
Total Accumulated Other Comprehensive Loss				(1,533)	(789)	(612)
Total Shareholders' Equity				$ 15,298	$ 15,061	$ 13,842

The accompanying notes to consolidated financial statements are an integral part of these statements.
Certain comparative figures have been reclassified to conform with the current year's presentation.

Consolidated Statement of Cash Flows

For the Year Ended October 31 (Canadian $ in millions)	2007	2006	2005
			Restated (see Notes 3 and 22)
Cash Flows from Operating Activities			
Net income	**$ 2,131**	$ 2,663	$ 2,396
Adjustments to determine net cash flows provided by (used in) operating activities			
Write-down of securities, other than trading	**18**	9	11
Net gain on securities, other than trading	**(264)**	(154)	(176)
Net (increase) in trading securities	**(23,028)**	(8,565)	(9,848)
Provision for credit losses	**353**	176	179
Gain on sale of securitized loans	**(202)**	(69)	(82)
Change in derivative instruments – (Increase) decrease in derivative asset	**(4,991)**	238	(6,862)
– Increase in derivative liability	**6,127**	3,328	5,681
Amortization of premises and equipment	**390**	360	377
Amortization of intangible assets	**46**	44	94
Net increase (decrease) in future income taxes	**(176)**	(153)	91
Net increase (decrease) in current income taxes	**(800)**	144	(367)
Change in accrued interest – (Increase) in interest receivable	**(129)**	(468)	(255)
– Increase in interest payable	**537**	303	162
Changes in other items and accruals, net	**6,051**	2,595	1,423
Gain on sale of Harris*direct* LLC (Note 12)	**–**	–	(49)
Gain on sale of land and buildings (Note 10)	**(6)**	–	(29)
Net Cash Provided by (Used in) Operating Activities	**(13,943)**	451	(7,254)
Cash Flows from Financing Activities			
Net increase in deposits	**45,222**	13,108	20,643
Net increase (decrease) in securities sold but not yet purchased	**10,328**	(708)	5,701
Net increase in securities lent or sold under repurchase agreements	**2,325**	9,987	1,737
Net increase (decrease) in liabilities of subsidiaries	**335**	(94)	(195)
Proceeds from issuance of securities of a subsidiary	**–**	–	447
Repayment of subordinated debt (Note 18)	**(483)**	(425)	(899)
Proceeds from issuance of subordinated debt (Note 18)	**1,200**	700	1,000
Redemption of preferred share liability (Note 21)	**(200)**	–	–
Proceeds from issuance of preferred shares (Note 21)	**600**	–	–
Proceeds from issuance of common shares	**245**	258	217
Share issue expense	**(14)**	–	–
Common shares repurchased for cancellation (Note 21)	**(524)**	(376)	(390)
Dividends paid	**(1,396)**	(1,163)	(955)
Net Cash Provided by Financing Activities	**57,638**	21,287	27,306
Cash Flows from Investing Activities			
Net (increase) decrease in interest bearing deposits with banks	**(5,709)**	901	(3,901)
Purchases of securities, other than trading	**(50,366)**	(20,433)	(14,827)
Maturities of securities, other than trading	**24,635**	9,494	8,402
Proceeds from sales of securities, other than trading	**11,824**	7,920	8,294
Net (increase) in loans, customers' liability under acceptances and loan substitute securities	**(14,570)**	(20,184)	(16,191)
Proceeds from securitization of loans	**3,330**	4,994	3,130
Net (increase) in securities borrowed or purchased under resale agreements	**(8,280)**	(3,723)	(5,900)
Proceeds from sales of land and buildings (Note 10)	**45**	–	347
Premises and equipment – net purchases	**(420)**	(583)	(487)
Acquisitions (Note 11)	**(386)**	(76)	(194)
Proceeds from sale of Harris*direct* LLC (Note 12)	**–**	–	827
Net Cash Used in Investing Activities	**(39,897)**	(21,690)	(20,500)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(2,606)**	(2)	254
Net Increase (Decrease) in Cash and Cash Equivalents	**1,192**	46	(194)
Cash and Cash Equivalents at Beginning of Year	**2,458**	2,412	2,606
Cash and Cash Equivalents at End of Year	**$ 3,650**	$ 2,458	$ 2,412
Represented by:			
Cash and non-interest bearing deposits with Bank of Canada and other banks	**$ 2,264**	$ 1,154	$ 1,309
Cheques and other items in transit, net	**1,386**	1,304	1,103
	$ 3,650	$ 2,458	$ 2,412
Supplemental Disclosure of Cash Flow Information			
Amount of interest paid in the year	**$ 11,447**	$ 7,873	$ 5,222
Amount of income taxes paid in the year	**$ 940**	$ 630	$ 1,065

The accompanying notes to consolidated financial statements are an integral part of these statements.
Certain comparative figures have been reclassified to conform with the current year's presentation.

Notes to Consolidated Financial Statements

Note 1: Basis of Presentation

We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"), including interpretations of GAAP by our regulator, the Superintendent of Financial Institutions Canada.

We reconcile our Canadian GAAP results to those that would be reported under United States GAAP. Significant differences in consolidated total assets, total liabilities or net income arising from applying United States GAAP are described in Note 30. In addition, our consolidated financial statements comply with applicable disclosure requirements of United States GAAP, except we do not provide disclosures related to Canadian and United States GAAP differences described in Note 30.

Basis of Consolidation

We conduct business through a variety of corporate structures, including subsidiaries and joint ventures. Subsidiaries are those where we exercise control through our ownership of the majority of the voting shares. Joint ventures are those where we exercise joint control through an agreement with other shareholders. All of the assets, liabilities, revenues and expenses of our subsidiaries and our proportionate share of the assets, liabilities, revenues and expenses of our joint ventures are included in our consolidated financial statements. All significant inter-company transactions and balances are eliminated.

We hold investments in companies where we exert significant influence over operating, investing and financing decisions (those where we own between 20% and 50% of the voting shares). These are recorded at cost and are adjusted for our proportionate share of any net income or loss and dividends. They are recorded as other securities in our Consolidated Balance Sheet and our proportionate share of the net income or loss of these companies is recorded in interest, dividend and fee income, securities, in our Consolidated Statement of Income.

We hold interests in variable interest entities, which we consolidate where we are deemed to be the primary beneficiary; these are more fully described in Note 8.

Translation of Foreign Currencies

We conduct business in a variety of foreign currencies and report our consolidated financial statements in Canadian dollars. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated using the average exchange rate for the year.

Unrealized gains and losses arising from translating net investments in foreign operations into Canadian dollars, net of related hedging activities and applicable income taxes, are included in shareholders' equity within accumulated other comprehensive gain (loss) on translation of net foreign operations. When we sell or liquidate an investment in a foreign operation, the associated translation gains and losses, previously included in shareholders' equity as accumulated other comprehensive gain (loss) on translation of net foreign operations, are recorded as part of the gain or loss on disposition in non-interest revenue, securities gains (losses), other than trading. All other foreign currency translation gains and losses are included in foreign exchange, other than trading, in our Consolidated Statement of Income as they arise.

From time to time, we enter into foreign exchange hedge contracts to reduce our exposure to changes in the value of foreign currencies. Realized and unrealized gains and losses on the mark-to-market of foreign exchange hedge contracts are included in foreign exchange, other than trading, in our Consolidated Statement of Income.

Specific Accounting Policies

To facilitate a better understanding of our consolidated financial statements, we have disclosed our significant accounting policies throughout the following notes with the related financial disclosures by major caption:

Changes in Accounting Policy

Changes in accounting policy that resulted from changes by Canadian standard setters in the current year require that we present a new Consolidated Statement of Comprehensive Income, which is comprised of net income, changes in unrealized gains or losses related to available-for-sale securities, changes in unrealized gains or losses related to cash flow hedges and the net unrealized foreign exchange gain or loss related to our net investment in foreign operations.

Other changes are disclosed as follows: securities – Note 3; effective interest method – Note 4; hedging derivatives – Note 9; and fair value option – Notes 3 and 15. Changes in accounting policy that resulted from changes by Canadian standard setters in 2006 are disclosed as follows: settlement date accounting – Note 3; variable interest entities – Note 8; and stock-based compensation – Note 22. Changes in accounting policy that resulted from changes by Canadian standard setters in 2005 are disclosed as follows: merchant banking investments – Note 3; and liabilities and equity – Notes 19 and 21. United States GAAP changes are described in Note 30.

Future Changes in Accounting Policy

Financial Instruments – Disclosure and Presentation

Effective November 1, 2007, we will adopt two new Canadian standards relating to the disclosure and presentation of financial instruments, enhancing users' ability to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

Capital Disclosures

Effective November 1, 2007, we will adopt the new Canadian standards on capital disclosures. This section establishes standards for disclosure of both qualitative and quantitative information that enable users to evaluate an entity's objectives, policies and processes for managing capital.

Notes

Accounting Policy Choice for Transaction Costs
On June 1, 2007, the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA") issued Abstract 166, "Accounting for Policy Choice for Transaction Costs". Transaction costs related to the acquisition or issuance of financial instruments that are classified as other than held-for-trading may be expensed immediately or included in the carrying value. The EIC Abstract requires the same choice be made for similar financial instruments, but permits a different choice for those that are not similar. The treatment is effective November 1, 2007, and we will continue to capitalize transaction costs related to loans and expense transaction costs related to securities.

Accounting Changes
Effective November 1, 2007, we will adopt the new CICA Handbook section 1506 "Accounting Changes". This section aims to improve the relevance, reliability and comparability of financial statements over time and to those of other entities by establishing criteria for accounting changes and related disclosures. The impact is not expected to be material to our results of operations or financial position.

Use of Estimates
In preparing our consolidated financial statements we must make estimates and assumptions, mainly concerning fair values, which affect reported amounts of assets, liabilities, net income and related disclosures. The most significant assets and liabilities where we must make estimates include: measurement of other than temporary impairment – Note 3; securities measured at fair value – Note 3; allowance for credit losses – Note 4; accounting for securitizations – Note 7; derivative instruments measured at fair value – Note 9; goodwill – Note 13; customer loyalty programs – Note 16; pension and other employee future benefits – Note 23; income taxes – Note 24; and contingent liabilities – Note 28. If actual results differ from the estimates, the impact would be recorded in future periods.

Note 2: Cash Resources

(Canadian $ in millions)	2007	2006
Cash and non-interest bearing deposits with Bank of Canada and other banks	**$ 2,264**	$ 1,154
Interest bearing deposits with banks	**19,240**	17,150
Cheques and other items in transit, net	**1,386**	1,304
Total	**$ 22,890**	$ 19,608

Deposits with Banks
Deposits with banks are recorded at amortized cost and include acceptances we have purchased that were issued by other banks. Interest income earned on these deposits is recorded on an accrual basis.

Cheques and Other Items in Transit, Net
Cheques and other items in transit are recorded at cost and represent the net position of the uncleared cheques and other items in transit between us and other banks.

Cash Restrictions
Some of our foreign operations are required to maintain reserves or minimum balances with central banks in their respective countries of operation, amounting to $457 million as at October 31, 2007 ($333 million in 2006).

Note 3: Securities

Changes in Accounting Policy
On November 1, 2006, we adopted the CICA's new accounting requirements for securities. The new rules required us to classify securities, other than trading securities, as held-to-maturity or available-for-sale.

(a) Available-for-Sale Securities
Available-for-sale securities are measured at fair value with unrealized gains and losses recorded in other comprehensive gain (loss) on available-for-sale securities in our Consolidated Statement of Changes in Shareholders' Equity until the security is sold, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. Gains and losses on disposal are recorded in our Consolidated Statement of Income in securities gains (losses), other than trading. Interest income earned and dividends received on available-for-sale securities are recorded in our Consolidated Statement of Income in interest, dividend and fee income, securities. We have not classified any of our securities as held-to-maturity. Available-for-sale securities where there is no quoted market price, including securities whose sale is restricted, will continue to be recorded at amortized cost.

The new rules do not affect accounting for our merchant banking investments or investments in corporate equity where we exercise significant influence, but not control. These are recorded as other securities in our Consolidated Balance Sheet.

On November 1, 2006, we remeasured our available-for-sale securities at fair value, as appropriate. A net unrealized gain of $3 million was recorded in opening accumulated other comprehensive income on available-for-sale securities.

(b) Fair Value Option
The new rules allow management to elect to measure financial instruments that would not otherwise be accounted for at fair value as trading instruments, with changes in fair value recorded in income provided they meet certain criteria. Financial instruments must have been designated on November 1, 2006, when the new standard was adopted, or when new financial instruments were acquired, and the designation is irrevocable.

Securities in our insurance subsidiaries that support our insurance liabilities have been designated as trading securities under the fair value option. Since the actuarial calculation of insurance liabilities is based on the recorded value of the securities supporting them, recording the securities at fair value better aligns the accounting result with how the portfolio is managed. On November 1, 2006, we remeasured these securities and the net unrealized loss of less than $1 million was recorded in opening retained earnings. The fair value of these securities as at October 31, 2007 was $30 million. The impact of recording these as trading securities was a decrease in non-interest revenue, insurance income of $1 million for the year ended October 31, 2007.

During the year ended October 31, 2006, we changed our accounting policy for recording securities transactions in our Consolidated Balance Sheet. We now record securities transactions on the date the transaction settles. Previously, we recorded securities transactions on the date we agreed to enter into the trade. We restated prior years' financial statements to reflect this change. The impact of this change on our Consolidated Balance Sheet as at October 31, 2006 was a decrease in trading securities of $1,896 million, a decrease in other assets of $6,618 million and a decrease in other liabilities of $8,514 million.

On November 1, 2004, we adopted the CICA's new accounting requirements applicable to our merchant banking subsidiaries. The new rules require these subsidiaries to account for their investments at fair value, with changes in fair value recorded in net income. Previously, these subsidiaries accounted for their investments at cost. The impact on our Consolidated Statement of Income, including the initial adjustment to fair value on November 1, 2004, was an increase of $50 million in non-interest revenue, securities gains, other than trading, an increase in income taxes of $18 million and an increase in net income of $32 million for the year ended October 31, 2005.

Securities

Securities are divided into four types, each with a different purpose and accounting treatment. The four types of securities we hold are as follows:

Available-for-sale securities (previously investment securities) consist of debt and equity securities. Available-for-sale securities include securities that may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs.

Trading securities are securities that we purchase for resale over a short period of time. We report these securities at their market value and record the mark-to-market adjustments and any gains and losses on the sale of these securities in our Consolidated Statement of Income in trading revenues (losses).

Merchant banking investments are securities held by our merchant banking subsidiaries. These subsidiaries account for their investments at fair value, with changes in fair value recorded in our Consolidated Statement of Income in securities gains, other than trading as they occur.

Merchant banking investments are classified as other securities in our Consolidated Balance Sheet.

Loan substitute securities are customer financings, such as distressed preferred shares, that we structure as after-tax investments to provide our customers with an interest rate advantage over what would be applicable on a conventional loan. These securities are accounted for in accordance with our accounting policy for loans, which is described in Note 4.

Impairment Review

We review available-for-sale and other securities at each quarter end to identify and evaluate investments that show indications of possible impairment. An investment is considered impaired if its unrealized losses represent impairment that is considered to be other than temporary.

In determining whether a loss is temporary, factors considered include the extent of the unrealized loss, the length of time that the security has been in an unrealized loss position, the financial condition and near-term prospects of the issuer, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If the decline is considered to be other than temporary, a write-down is recorded in our Consolidated Statement of Income in securities gains (losses), other than trading.

As at October 31, 2007, we had available-for-sale securities with unrealized losses of $48 million. As at October 31, 2006, we had investment securities with unrealized losses of $57 million. The majority of unrealized losses resulted from increases in market interest rates and not from deterioration in the creditworthiness of the issuers. Management has determined that the unrealized losses are temporary in nature.

We did not own any securities issued by a single non-government entity where the book value, as at October 31, 2007 or 2006, was greater than 10% of our shareholders' equity.

Included in other securities are investments where we exert significant influence, but not control, of $962 million and $937 million as at October 31, 2007 and 2006, respectively.

Fair Value

For traded securities, quoted market value is considered to be fair value. Quoted market value is based on bid prices, where available. For securities where market quotes are not available, we use estimation techniques to determine fair value. Estimation techniques used include discounted cash flows, internal models that utilize observable market data or comparisons with other securities that are substantially the same.

In the following tables, we report current-year amounts for available-for-sale securities that have been measured at fair value. These securities were previously classified as investment securities in 2006 and were recorded at cost or amortized cost. Merchant banking investments and investments in corporate equity where we exercise significant influence, but not control, which were previously classified as investment securities in 2006, are now classified as other securities. Securities in our insurance subsidiaries that support our insurance liabilities, which were previously classified as investment securities in 2006 and recorded at amortized cost, have been designated as trading securities under the fair value option.

(Canadian $ in millions, except as noted)	Term to maturity Within 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	2007 Total	2006 Total
Trading Securities							
Issued or guaranteed by:							
Canadian federal government	$ 1,972	$ 2,825	$ 2,097	$ 364	$ 2,235	$ 9,493	$ 5,496
Canadian provincial and municipal governments	683	524	380	1,217	1,167	3,971	2,851
U.S. federal government	92	355	24	19	211	701	2,045
U.S. states, municipalities and agencies	–	–	–	–	106	106	135
Other governments	–	39	82	710	41	872	717
Corporate debt	16,061	3,187	2,038	3,334	6,816	31,436	21,588
Corporate equity	–	–	–	3	24,191	24,194	18,988
Total trading securities	18,808	6,930	4,621	5,647	34,767	70,773	51,820
Available-for-Sale Securities (1)							
Issued or guaranteed by:							
Canadian federal government							
Amortized cost	229	499	98	101	–	927	589
Fair value	229	499	98	101	–	927	589
Yield (%)	4.35	4.39	4.22	3.94	–	4.31	4.30
Canadian provincial and municipal governments							
Amortized cost	1	–	–	–	–	1	3
Fair value	1	–	–	–	–	1	3
Yield (%)	6.30	–	–	–	–	6.30	4.37
U.S. federal government							
Amortized cost	282	741	170	321	4	1,518	1,898
Fair value	282	743	173	321	4	1,523	1,879
Yield (%)	3.53	4.09	4.48	4.57	4.77	4.13	4.30
U.S. states, municipalities and agencies							
Amortized cost	3,991	1,703	1,078	275	1,634	8,681	7,810
Fair value	3,992	1,708	1,080	276	1,628	8,684	7,800
Yield (%)	4.86	5.29	3.90	5.79	5.63	5.00	3.75
Other governments							
Amortized cost	37	39	7	13	–	96	106
Fair value	37	39	7	13	–	96	107
Yield (%)	3.73	4.63	4.17	4.80	–	4.27	4.06
Mortgage-backed securities and collateralized mortgage obligations — Canada (2)							
Amortized cost	–	–	8,882	–	–	8,882	–
Fair value	–	–	8,902	–	–	8,902	–
Yield (%)	–	–	4.75	–	–	4.75	–
Mortgage-backed securities and collateralized mortgage obligations — U.S.							
Amortized cost	9	105	–	30	224	368	465
Fair value	9	103	–	29	221	362	455
Yield (%)	4.57	3.93	–	3.66	5.08	4.62	4.47
Corporate debt							
Amortized cost	1,670	1,188	1,703	77	37	4,675	2,395
Fair value	1,670	1,184	1,706	75	37	4,672	2,398
Yield (%)	3.76	4.82	3.02	3.19	2.19	3.74	3.35
Corporate equity							
Cost	25	234	163	130	265	817	900
Fair value	25	235	165	139	279	843	990
Yield (%)	5.71	5.56	4.64	3.31	3.23	4.27	4.42
Total cost or amortized cost	6,244	4,509	12,101	947	2,164	25,965	14,166
Total fair value	6,245	4,511	12,131	954	2,169	26,010	14,221
Yield (%)	4.48	4.85	4.42	4.55	5.22	4.58	3.84
Other Securities (1)							
Cost	–	–	–	849	645	1,494	1,414
Fair value	–	–	–	849	645	1,494	1,414
Loan Substitute Securities							
Cost	–	–	–	–	–	–	11
Fair value	–	–	–	–	–	–	11
Total cost or amortized cost of securities	$ 25,052	$ 11,439	$ 16,722	$ 7,443	$ 37,576	$ 98,232	$ 67,411
Total fair value of securities	$ 25,053	$ 11,441	$ 16,752	$ 7,450	$ 37,581	$ 98,277	$ 67,466
Total by Currency (in Canadian $ equivalent)							
Canadian dollar	14,202	5,654	12,919	3,314	21,117	57,206	30,666
U.S. dollar	10,637	4,557	2,358	2,227	16,168	35,947	32,102
Other currencies	214	1,230	1,475	1,909	296	5,124	4,698
Total securities	$ 25,053	$ 11,441	$ 16,752	$ 7,450	$ 37,581	$ 98,277	$ 67,466

(1) Classified as investment securities in 2006.
(2) These amounts are supported by guaranteed mortgages.

Yields in the table above are calculated using the cost or amortized cost of the security and the contractual interest or stated dividend rates associated with each security adjusted for any amortization of premiums and discounts. Tax effects are not taken into consideration.

The term to maturity included in the table above is based on the contractual maturity date of the security. The term to maturity of mortgage-backed securities and collateralized mortgage obligations is based on average expected maturities. Actual maturities could differ as issuers may have the right to call or prepay obligations. Securities with no maturity date are included in the over 10 years category.

Unrealized Gains and Losses

(Canadian $ in millions)	Available-for-sale and other securities			2007	Investment and other securities			2006
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Issued or guaranteed by:								
Canadian federal government	**$ 927**	**$ –**	**$ –**	**$ 927**	$ 589	$ –	$ –	$ 589
Canadian provincial and municipal governments	**1**	**–**	**–**	**1**	3	–	–	3
U.S. federal government	**1,518**	**6**	**1**	**1,523**	1,898	–	19	1,879
U.S. states, municipalities and agencies	**8,681**	**20**	**17**	**8,684**	7,810	15	25	7,800
Other governments	**96**	**–**	**–**	**96**	106	1	–	107
Mortgage-backed securities and collateralized mortgage obligations – Canada (1)	**8,882**	**20**	**–**	**8,902**	–	–	–	–
Mortgage-backed securities and collateralized mortgage obligations – U.S.	**368**	**–**	**6**	**362**	465	1	11	455
Corporate debt	**4,779**	**18**	**21**	**4,776**	2,485	4	1	2,488
Corporate equity	**2,207**	**29**	**3**	**2,233**	2,224	91	1	2,314
Total	**$ 27,459**	**$ 93**	**$ 48**	**$ 27,504**	$ 15,580	$ 112	$ 57	$ 15,635

(1) These amounts are supported by guaranteed mortgages.

Unrealized Losses

(Canadian $ in millions)	Available-for-sale securities in an unrealized loss position for			2007	Investment securities in an unrealized loss position for			2006
	Less than 12 months	**12 months or longer**	**Total**		Less than 12 months	12 months or longer	Total	
	Gross unrealized losses	**Gross unrealized losses**	**Gross unrealized losses**	**Fair value**	Gross unrealized losses	Gross unrealized losses	Gross unrealized losses	Fair value
Issued or guaranteed by:								
Canadian federal government	**$ –**	**$ –**	**$ –**	**$ –**	$ –	$ –	$ –	$ –
Canadian provincial and municipal governments	**–**	**–**	**–**	**–**	–	–	–	–
U.S. federal government	**1**	**–**	**1**	**301**	15	4	19	899
U.S. states, municipalities and agencies	**11**	**6**	**17**	**2,453**	8	17	25	4,717
Other governments	**–**	**–**	**–**	**56**	–	–	–	67
Mortgage-backed securities and collateralized mortgage obligations – Canada (1)	**–**	**–**	**–**	**–**	–	–	–	–
Mortgage-backed securities and collateralized mortgage obligations – U.S.	**–**	**6**	**6**	**253**	–	11	11	368
Corporate debt	**20**	**1**	**21**	**1,411**	1	–	1	286
Corporate equity	**2**	**1**	**3**	**86**	–	1	1	30
Total	**$ 34**	**$ 14**	**$ 48**	**$ 4,560**	$ 24	$ 33	$ 57	$ 6,367

(1) These amounts are supported by guaranteed mortgages.

Income from securities has been included in our consolidated financial statements as follows:

(Canadian $ in millions)	**2007**	2006	2005
Reported in Consolidated Statement of Income:			
Interest, Dividend and Fee Income			
Trading securities	**$ 1,631**	$ 1,789	$ 1,340
Available-for-sale securities (1)	**1,439**	369	490
Other securities (1)	**83**	–	–
	$ 3,153	$ 2,158	$ 1,830
Non-Interest Revenue			
Available-for-sale securities (1)			
Gross realized gains	**$ 212**	$ 137	$ 142
Gross realized losses	**(18)**	(12)	(16)
Other securities, net realized and unrealized gains	**70**	29	50
Impairment write-downs	**(18)**	(9)	(11)
Securities gains, other than trading	**$ 246**	$ 145	$ 165
Trading securities, net realized and unrealized gains (losses)	**$ (38)**	$ 305	$ 222
Total income from securities	**$ 3,361**	$ 2,608	$ 2,217

(1) Classified as investment securities in 2006 and 2005.

Note 4: Loans, Customers' Liability under Acceptances and Allowance for Credit Losses

Change in Accounting Policy

Loan origination costs are included in our loan balances and are recognized in interest, dividend and fee income, loans, over the life of the resulting loan. Prior to November 1, 2006, an equal amount of loan origination costs was recognized in each year over the life of the resulting loan. The new rules require that we use the effective interest method to recognize loan origination costs, whereby the amount recognized varies over the life of the loan based on the principal outstanding.

As at November 1, 2006, we adjusted our deferred loan origination costs to reflect the balance that would have resulted if we had always used the effective interest method to recognize loan origination costs. The impact was a decrease in loans, residential mortgages of $87 million, a decrease in future income tax liability of $30 million and a decrease in retained earnings of $57 million.

Loans

Loans are recorded at amortized cost using the effective interest method. This method allocates interest income over the expected term by applying the effective interest rate to the carrying amount of the loan. The effective interest rate is defined as the rate that exactly discounts estimated future cash receipts through the expected life of the loan. The treatment of interest income for impaired loans is described below.

Securities borrowed or purchased under resale agreements represent the amounts we will receive as a result of our commitment to resell securities that we have purchased back to the original seller, on a specified date at a specified price. We account for these instruments as loans.

Loan Fees

The accounting treatment for loan fees varies depending on the transaction. Loan origination, restructuring and renegotiation fees are recorded as interest income over the term of the loan. Commitment fees are recorded as interest income over the term of the loan, unless we believe the loan commitment will not be used. In the latter case, commitment fees are recorded as lending fees over the commitment period. Loan syndication fees are included in lending fees as the syndication is completed, unless the yield on any loans we retain is less than that of other comparable lenders involved in the financing. In the latter case, an appropriate portion of the syndication fee is recorded as interest income over the term of the loan.

Customers' Liability under Acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our customers and which we guarantee for a fee. We have offsetting claims, equal to the amount of the acceptances, against our customers in the event of a call on these commitments. The amount due under acceptances is recorded in other liabilities and our corresponding claim is recorded as a loan in our Consolidated Balance Sheet.

Fees earned are recorded in lending fees in our Consolidated Statement of Income.

Impaired Loans

We classify residential mortgages as impaired when payment is contractually 90 days past due, or one year past due if guaranteed by the Government of Canada. Credit card loans are classified as impaired and immediately written off when principal or interest payments are 180 days past due. Consumer instalment and other personal loans are classified as impaired when principal or interest payments are 90 days past due, and are normally written off when they are one year past due.

Corporate and commercial loans are classified as impaired when we are no longer reasonably assured that principal or interest will be collected on a timely basis, or when payments are 90 days past due, or for fully secured loans, when payments are 180 days past due.

We do not accrue interest income on loans classified as impaired, and any interest income that is accrued and unpaid is reversed against interest income.

Payments received on corporate and commercial loans that have been classified as impaired are applied first to the recovery of collection costs, principal and any previous write-offs or allowances, and then as interest income. Payments received on impaired consumer instalment loans are applied first to outstanding interest and then to the remaining principal.

A loan will be reclassified back to performing status when it is determined that there is reasonable assurance of full and timely repayment of interest and principal in accordance with the terms and conditions of the loan, and that none of the criteria for classification of the loan as impaired continue to apply.

From time to time we will restructure a loan due to the poor financial condition of the borrower. If no longer considered impaired, interest on these restructured loans is recorded on an accrual basis.

Allowance for Credit Losses

The allowance for credit losses recorded in our Consolidated Balance Sheet is maintained at a level which we consider adequate to absorb credit-related losses on our loans, customers' liability under acceptances and other credit instruments (as discussed in Note 5). The portion related to other credit instruments is recorded in other liabilities in our Consolidated Balance Sheet.

The allowance comprises the following two components:

Specific Allowances

These allowances are recorded for specific loans to reduce their book value to the amount we expect to recover. We review our loans and acceptances on an ongoing basis to assess whether any loans should be classified as impaired and whether an allowance or write-off should be recorded (other than consumer instalment and credit card loans, which are written off when certain conditions exist, as discussed under impaired loans). Our review of problem loans is conducted at least quarterly by our account managers, who assess the ultimate collectibility and estimated recoveries on a specific loan based on all events and conditions that the manager believes are relevant to the condition of the loan. This assessment is then reviewed and concurred with by an independent credit officer.

To determine the amount we expect to recover from an impaired loan, we use the value of the estimated future cash flows discounted at the effective rate inherent in the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the expected recovery amount is estimated using either the fair value of any security underlying the loan, net of expected costs of realization and any amounts legally required to be paid to the borrower, or an observable market price for the loan. Security can vary by type of loan and may include cash, securities, real property, accounts receivable, guarantees, inventory or other capital assets.

General Allowance

We maintain a general allowance in order to cover any impairment in the existing portfolio that cannot yet be associated with specific loans. Our approach to establishing and maintaining the general allowance is based on the guideline issued by our regulator, the Superintendent of Financial Institutions Canada.

The general allowance is reviewed on a quarterly basis. A number of factors are considered when determining the appropriate level of the general allowance, including a general allowance model that applies historical expected and unexpected loss rates to current balances with sensitivity to risk ratings, industry sectors and credit products. Model results are then considered along with the level of the existing allowance, as well as management's judgment regarding portfolio quality, business mix, and economic and credit market conditions.

Provision for Credit Losses

Changes in the value of our loan portfolio due to credit-related losses or recoveries of amounts previously provided for or written off are included in the provision for credit losses in our Consolidated Statement of Income.

Foreclosed Assets

Property or other assets that we have received from borrowers to satisfy their loan commitments are recorded at fair value and are classified as either held for use or held for sale according to management's intention. Fair value is determined based on market prices where available. Otherwise, fair value is determined using other methods, such as analysis of discounted cash flows or market prices for similar assets.

Loans, including customers' liability under acceptances and allowance for credit losses by category, are as follows:

(Canadian $ in millions)	Gross amount		Specific allowance		General allowance		Net amount	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Residential mortgages	**$ 52,429**	$ 63,321	**$ 14**	$ 5	**$ 11**	$ 23	**$ 52,404**	$ 63,293
Credit card, consumer instalment and other personal loans	**37,682**	34,049	**1**	1	**327**	340	**37,354**	33,708
Business and government loans	**62,650**	56,030	**142**	147	**517**	506	**61,991**	55,377
Securities borrowed or purchased under resale agreements	**37,093**	31,429	**–**	–	**–**	–	**37,093**	31,429
Subtotal	**189,854**	184,829	**157**	153	**855**	869	**188,842**	183,807
Customers' liability under acceptances	**12,389**	7,223	**–**	–	**43**	36	**12,346**	7,187
Total	**$ 202,243**	$ 192,052	**$ 157**	$ 153	**$ 898**	$ 905	**$ 201,188**	$ 190,994
By geographic region (1):								
Canada	**$ 145,765**	$ 139,223	**$ 105**	$ 96	**$ 587**	$ 555	**$ 145,073**	$ 138,572
United States	**51,634**	50,227	**51**	53	**311**	350	**51,272**	49,824
Other countries	**4,844**	2,602	**1**	4	**–**	–	**4,843**	2,598
Total	**$ 202,243**	$ 192,052	**$ 157**	$ 153	**$ 898**	$ 905	**$ 201,188**	$ 190,994

(1) Geographic region is based upon the country of ultimate risk.

Restructured loans of $3 million were classified as performing during the year ended October 31, 2007 ($nil in 2006). No restructured loans were written off in the years ended October 31, 2007 and 2006.

Included in loans as at October 31, 2007 are $56,356 million ($53,750 million in 2006) of loans denominated in U.S. dollars and $1,909 million ($1,101 million in 2006) of loans denominated in other foreign currencies.

Impaired loans, including customers' liability under acceptances and the related allowances, are as follows:

(Canadian $ in millions)	Gross impaired amount		Specific allowance		Net of specific allowance	
	2007	2006	**2007**	2006	**2007**	2006
Residential mortgages	**$ 126**	$ 115	**$ 14**	$ 5	**$ 112**	$ 110
Consumer instalment and other personal loans	**55**	48	**1**	1	**54**	47
Business and government loans	**539**	503	**142**	147	**397**	356
Total	**$ 720**	$ 666	**$ 157**	$ 153	**$ 563**	$ 513
By geographic region (1):						
Canada	**$ 454**	$ 391	**$ 105**	$ 96	**$ 349**	$ 295
United States	**262**	260	**51**	53	**211**	207
Other countries	**4**	15	**1**	4	**3**	11
Total	**$ 720**	$ 666	**$ 157**	$ 153	**$ 563**	$ 513

(1) Geographic region is based upon the country of ultimate risk.

Fully secured loans with past due amounts between 90 and 180 days that we have not classified as impaired totalled $58 million and $47 million as at October 31, 2007 and 2006, respectively.

No impaired loans were foreclosed during the years ended October 31, 2007 and 2006.

Our average gross impaired loans and acceptances were $677 million for the year ended October 31, 2007 ($729 million in 2006). Our average impaired loans, net of the specific allowance, were $516 million for the year ended October 31, 2007 ($552 million in 2006).

During the years ended October 31, 2007, 2006 and 2005, we would have recorded additional interest income of $43 million, $45 million and $65 million, respectively, if we had not classified any loans as impaired. Cash interest income on impaired loans of $nil was recognized during each of the years ended October 31, 2007, 2006 and 2005.

Concentration of Credit Risk

We are exposed to credit risk from the possibility that counterparties may default on their financial obligations to us. Credit risk arises predominantly with respect to loans, over-the-counter derivatives and other credit instruments.

Concentrations of credit risk exist if a number of clients are engaged in similar activities, are located in the same geographic region or have similar economic characteristics such that their ability to meet their contractual obligations could be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate a related sensitivity of our performance to developments affecting a particular counterparty, industry or geographic location.

Information about our credit risk exposure is provided above in the classification of our loan assets both by type of loan and by geographic region.

A continuity of our allowance for credit losses is as follows:

(Canadian $ in millions)	Specific allowance			General allowance			Total		
	2007	2006	2005	**2007**	2006	2005	**2007**	2006	2005
Balance at beginning of year	**$ 153**	$ 169	$ 298	**$ 905**	$ 959	$ 1,010	**$ 1,058**	$ 1,128	$ 1,308
Provision for credit losses	**303**	211	219	**50**	(35)	(40)	**353**	176	179
Recoveries	**91**	112	67	**–**	–	–	**91**	112	67
Write-offs	**(391)**	(338)	(419)	**–**	–	–	**(391)**	(338)	(419)
Foreign exchange and other	**1**	(1)	4	**(57)**	(19)	(11)	**(56)**	(20)	(7)
Balance at end of year	**$ 157**	$ 153	$ 169	**$ 898**	$ 905	$ 959	**$ 1,055**	$ 1,058	$ 1,128

Note 5: Other Credit Instruments

We use other off-balance sheet credit instruments as a method of meeting the financial needs of our customers. Summarized below are the types of instruments that we use:

- Standby letters of credit and guarantees represent our obligation to make payments to third parties on behalf of our customers if our customers are unable to make the required payments or meet other contractual requirements;
- Securities lending represents our credit exposure when we lend our securities, or our customers' securities, to third parties should the securities borrower default on its redelivery obligation;
- Documentary and commercial letters of credit represent our agreement to honour drafts presented by a third party upon completion of specific activities; and
- Commitments to extend credit represent our commitment to our customers to grant them credit in the form of loans or other financings for specific amounts and maturities, subject to meeting certain conditions.

The contractual amount of our other credit instruments represents the maximum undiscounted potential credit risk if the counterparty does not perform according to the terms of the contract, before possible recoveries under recourse and collateral provisions. Collateral requirements for these instruments are consistent with collateral requirements for loans. A large majority of these commitments expire without being drawn upon. As a result, the total contractual amounts may not be representative of our likely funding required for these commitments.

We strive to limit credit risk by dealing only with counterparties that we believe are creditworthy, and we manage our credit risk for other credit instruments using the same credit risk process that is applied to loans and other credit assets.

The risk-weighted equivalent values of our other credit instruments are determined based on the rules for capital adequacy of the Superintendent of Financial Institutions Canada. The risk-weighted equivalent value is used in the ongoing assessment of our capital adequacy ratios.

Summarized information related to various commitments is as follows:

(Canadian $ in millions)	**2007**		2006	
	Contract amount	**Risk-weighted equivalent**	Contract amount	Risk-weighted equivalent
Credit Instruments				
Standby letters of credit and guarantees	**$ 12,395**	**$ 7,270**	$ 11,007	$ 7,542
Securities lending	**1,834**	**59**	690	21
Documentary and commercial letters of credit	**1,301**	**116**	1,621	207
Commitments to extend credit – Original maturity of one year and under	**66,126**	**3,531**	68,345	–
– Original maturity of over one year	**28,372**	**13,066**	28,104	13,543
Total	**$ 110,028**	**$ 24,042**	$ 109,767	$ 21,313

Certain comparative figures have been reclassified to conform with the current year's presentation.

Note 6: Guarantees

Guarantees include contracts where we may be required to make payments to a counterparty based on changes in the value of an asset, liability or equity security that the counterparty holds due to changes in an underlying interest rate, foreign exchange rate or other variable. In addition, contracts under which we may be required to make payments if a third party does not perform according to the terms of a contract and contracts under which we provide indirect guarantees of the indebtedness of another party are considered guarantees.

In the normal course of business, we enter into a variety of guarantees, the most significant of which are as follows:

Standby Letters of Credit and Guarantees

Standby letters of credit, as discussed in Note 5, are considered guarantees. The maximum amount payable under standby letters of credit and guarantees was $12,395 million as at October 31, 2007 ($11,007 million in 2006). Collateral requirements for standby letters of credit and guarantees are consistent with our collateral requirements for loans. In most cases, these commitments expire within three years without being drawn upon.

No amount was included in our Consolidated Balance Sheet as at October 31, 2007 and 2006 related to these standby letters of credit and guarantees.

Backstop Liquidity Facilities

Commitments to extend credit, as discussed in Note 5, include backstop liquidity facilities. Backstop liquidity facilities are provided to asset-backed commercial paper programs administered by either us or third parties as an alternative source of financing in the event that such programs are unable to access asset-backed commercial paper markets or, in limited circumstances, when predetermined performance measures of the financial assets owned by these programs are not met. The terms of the backstop liquidity facilities do not require us to advance money to these programs in the event of bankruptcy of the borrower. The facilities' terms are generally no longer than one year, but can be several years. The maximum amount payable under these backstop liquidity facilities totalled $38,466 million as at October 31, 2007 ($38,606 million in 2006). The amount drawn on the backstop liquidity facilities was $16 million as at October 31, 2007 ($nil in 2006).

Credit Enhancement Facilities

Where warranted, we provide partial credit enhancement facilities to transactions within asset-backed commercial paper programs administered by us and by third parties. Credit enhancement facilities were included in $5,449 million of backstop liquidity facilities as at October 31, 2007 ($4,088 million in 2006). Credit enhancement was also provided in the form of program letters of credit; $nil and $181 million were included in standby letters of credit and guarantees as at October 31, 2007 and 2006, respectively. The facilities' terms are generally no longer than one year, but can be several years. None of the credit enhancement facilities that we have provided have been drawn upon.

Derivatives

Certain of our derivative instruments meet the accounting definition of a guarantee when we believe they are related to an asset, liability or equity security held by the guaranteed party at the inception of a contract.

Written credit default swaps require us to compensate a counterparty following the occurrence of a credit event in relation to a specified reference obligation, such as a bond or a loan. The maximum amount payable under credit default swaps was equal to their notional amount of $42,433 million as at October 31, 2007 ($23,657 million in 2006). The terms of these contracts range from one month to 10 years. The fair value of the related derivative liabilities included in the derivative instruments in our Consolidated Balance Sheet was $466 million as at October 31, 2007 ($19 million in 2006).

Written options include contractual agreements that convey to the purchaser the right, but not the obligation, to require us to buy a specific amount of a currency, commodity, debt or equity instrument at a fixed price, either at a fixed future date or at any time within a fixed future period. The maximum amount payable under these written options cannot be reasonably estimated due to the nature of these contracts. The terms of these contracts range from one month to eight years. The fair value of the related derivative liabilities included in the derivative instruments in our Consolidated Balance Sheet was $662 million as at October 31, 2007 ($2,407 million in 2006).

Written options also include contractual agreements where we agree to pay the purchaser, based on a specified notional amount, the difference between a market price or rate and the strike price or rate of the underlying instrument. The maximum amount payable under these contracts is not determinable due to their nature. The terms of these contracts range from four months to 25 years. The fair value of the related derivative liabilities included in derivative instruments in our Consolidated Balance Sheet was $118 million as at October 31, 2007 ($114 million in 2006).

In order to reduce our exposure to these derivatives, we enter into contracts that hedge the related risks.

Indemnification Agreements

In the normal course of operations, we enter into various agreements that provide general indemnifications. These indemnifications typically occur in connection with sales of assets, securities offerings, service contracts, membership agreements, clearing arrangements, derivatives contracts and leasing transactions. These indemnifications require us, in certain circumstances, to compensate the counterparties for various costs resulting from breaches of representations or obligations under such arrangements, or as a result of third-party claims that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnifications vary based on the contract, the nature of which prevents us from making a reasonable estimate of the maximum amount payable we could be required to pay to counterparties.

No material amount was included in our Consolidated Balance Sheet as at October 31, 2007 and 2006 related to these indemnifications.

Note 7: Asset Securitization

Periodically, we securitize loans for capital management purposes or to obtain alternate sources of funding. Securitization involves selling loans to off-balance sheet entities or trusts (securitization vehicles), which buy the loans and then issue either interest bearing or discounted investor certificates.

Contracts with the securitization vehicles provide for the payment to us over time of the excess of the sum of interest and fees collected from customers, in connection with the loans that were sold, over the yield paid to investors in the securitization vehicle, less credit losses and other costs (the "deferred purchase price").

When the loans are considered sold for accounting purposes, we remove them from our Consolidated Balance Sheet.

We account for transfers to securitization vehicles as sales when control over the loans is given up and consideration other than notes issued by the securitization vehicle has been received. We recognize securitization revenues at the time of the sale, based on our best estimate of the net present value of expected future cash flows, primarily the deferred purchase price, net of our estimate of the fair value of any servicing obligations undertaken. The deferred purchase price is recorded in our Consolidated Balance Sheet in available-for-sale securities. A servicing liability is recognized only for securitizations where we do not receive adequate compensation for servicing the transferred loans. It is initially measured at fair value and is recorded in our Consolidated Balance Sheet in other liabilities. A servicing liability is amortized in securitization revenues over the term of the transferred loan.

For some of our securitizations, we are required to purchase subordinated interests or to maintain cash amounts deposited with the securitization vehicle that are considered retained interests in the securitized assets. This provides the securitization vehicle with a source of funds in the event that the sum of interest and fees collected on the loans is not sufficient to pay the interest owed to investors. We record these retained interests at their fair values in available-for-sale securities in our Consolidated Balance Sheet. These interests, together with our deferred purchase price, represent our exposure with respect to these securitizations. Investors have no further recourse against us in the event that cash flows from the transferred loans are inadequate to service the interest related to the investor certificates.

During the year ended October 31, 2007, we securitized residential mortgages totalling $3,400 million ($3,629 million in 2006) for total cash proceeds of $3,330 million ($3,569 million in 2006) and recognized a gain of $11 million (loss of $1 million in 2006). There are no expected credit losses as the mortgages are guaranteed by third parties. We retained responsibility for servicing these mortgages. We recorded deferred purchase price of $125 million ($111 million in 2006) and servicing liability of $26 million ($28 million in 2006) in our Consolidated Balance Sheet when these mortgages were securitized.

During the year ended October 31, 2006, we securitized credit card loans totalling $1,500 million for total cash proceeds of $1,425 million and recognized a gain of $27 million. We retained responsibility for servicing these credit card loans. We recorded deferred purchase price of $36 million, investment in securitization vehicles of $73 million and servicing liability of $6 million when these credit card loans were securitized.

The key weighted-average assumptions used to value the deferred purchase price for these securitizations were as follows:

	Residential mortgages		Credit card loans	
	2007	2006	**2007**	2006
Weighted-average life (years)	**4.6**	4.6	**n/a**	0.35
Prepayment rate	**9.70%**	9.36%	**n/a**	41.04%
Interest rate	**5.24%**	4.95%	**n/a**	19.98%
Expected credit losses	**n/a**	n/a	**n/a**	1.90%
Discount rate	**4.62%**	4.32%	**n/a**	10.97%

n/a – not applicable

The impact of securitizations on our Consolidated Statement of Income for the three years ended October 31, 2007, 2006 and 2005 was as follows:

(Canadian $ in millions)	Residential mortgages			Consumer instalment and other personal loans			Credit card loans			Total		
	2007	2006	2005	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005
Gain (loss) on sales of loans from new securitizations	**$ 11**	$ (1)	$ 30	**$ –**	$ –	$ –	**$ –**	$ 27	$ –	**$ 11**	$ 26	$ 30
Gain on sales of new loans sold to existing securitization vehicles	**28**	22	32	**–**	–	–	**163**	21	20	**191**	43	52
Other securitization revenue	**(23)**	(22)	3	**5**	13	4	**46**	10	1	**28**	1	8
Amortization of servicing liability	**36**	30	23	**–**	–	–	**30**	–	–	**66**	30	23
Total	**$ 52**	$ 29	$ 88	**$ 5**	$ 13	$ 4	**$ 239**	$ 58	$ 21	**$ 296**	$ 100	$ 113

Cash flows received from securitization vehicles for the three years ended October 31, 2007, 2006 and 2005 were as follows:

(Canadian $ in millions)	Residential mortgages			Consumer instalment and other personal loans			Credit card loans			Total		
	2007	2006	2005	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005
Proceeds from new securitizations	**$ 3,330**	$ 3,569	$ 3,130	**$ –**	$ –	$ –	**$ –**	$ 1,425	$ –	**$ 3,330**	$ 4,994	$ 3,130
Proceeds from collections reinvested in existing securitization vehicles	**2,187**	1,770	1,895	**–**	–	–	**8,198**	1,236	1,343	**10,385**	3,006	3,238
Servicing fees collected	**21**	15	8	**–**	–	–	**3**	5	6	**24**	20	14
Receipt of deferred purchase price	**104**	93	88	**–**	–	–	**240**	25	20	**344**	118	108

The impact of securitizations on our Consolidated Balance Sheet as at October 31, 2007 and 2006 was as follows:

(Canadian $ in millions)	Residential mortgages		Consumer instalment and other personal loans		Credit card loans		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Retained interests								
Investment in securitization vehicles	**$ –**	$ –	**$ –**	$ 6	**$ 74**	$ 73	**$ 74**	$ 79
Deferred purchase price	**266**	238	**–**	–	**36**	40	**302**	278
Cash deposits with securitization vehicles	**12**	12	**–**	–	**–**	–	**12**	12
Servicing liability	**70**	62	**–**	–	**6**	6	**76**	68

Credit Information

Information related to principal amounts, impaired amounts and net credit losses for all loans reported and securitized is as follows:

(Canadian $ in millions)	2007			2006		
	Total loans	**Impaired loans**	**Net write-offs (1)**	Total loans	Impaired loans	Net write-offs (1)
Residential mortgages	**$ 74,002**	**$ 133**	**$ –**	$ 74,330	$ 135	$ 7
Consumer instalment and other personal loans	**33,189**	**41**	**37**	30,428	37	72
Credit card loans	**5,993**	**14**	**216**	5,381	11	128
Business and government loans	**62,650**	**539**	**83**	56,030	503	26
Securities borrowed or purchased under resale agreements	**37,093**	**–**	**–**	31,429	–	–
Total loans	**212,927**	**727**	**336**	197,598	686	233
Less mortgage-backed securities retained and classified as available-for-sale securities	**8,882**	**–**	**–**	–	–	–
Less loans securitized:						
Residential mortgages	**12,691**	**7**	**–**	11,009	20	–
Consumer instalment and other personal loans	**–**	**–**	**–**	10	–	2
Credit card loans	**1,500**	**–**	**36**	1,750	–	5
Total loans reported in the Consolidated Balance Sheet	**$ 189,854**	**$ 720**	**$ 300**	$ 184,829	$ 666	$ 226

(1) Net write-offs represent write-offs in the year net of recoveries on loans previously written off.

Our credit exposure to securitized assets as at October 31, 2007 was limited to our deferred purchase price of $302 million ($278 million in 2006), certain cash deposits of $12 million ($12 million in 2006) and investments in securitization vehicles of $74 million ($79 million in 2006).

Static pool credit losses provide a measure of the credit risk in our securitized assets. They are calculated by totalling actual and projected future credit losses and dividing the result by the original balance of each pool of assets. Static pool credit losses for the two years ended October 31, 2007 were as follows:

	2007	2006
Residential mortgages	**n/a**	n/a
Consumer instalment and other personal loans	**2.61%**	2.65%
Credit card loans	**0.91%**	0.46%

n/a – not applicable

Sensitivity Analysis

The following table outlines the key economic assumptions used in measuring the deferred purchase price and servicing liability and the sensitivity of these retained interests as at October 31, 2007 to immediate 10% and 20% adverse changes in those assumptions. The sensitivity analysis should be used with caution as it is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key variable have been calculated independently of changes in the other key variables. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

(Canadian $ in millions, except as noted)	Residential mortgages	Credit card loans
Fair value of deferred purchase price	$ 266	$ 36
Weighted average life (in years)	3	0.35
Prepayment rate (%) / Repayment term (years)	9–36	1
Impact of: 10% adverse change ($)	2–4	3
20% adverse change ($)	4–8	6
Interest rate (%)	0.52–2	12
Impact of: 10% adverse change ($)	7–21	4
20% adverse change ($)	13–43	7
Expected credit losses (%)	0–0.01	2
Impact of: 10% adverse change ($)	0.59–0	0.67
20% adverse change ($)	0.67–0	1
Discount rate (%)	5–11	11
Impact of: 10% adverse change ($)	1–2	0.15
20% adverse change ($)	2–3	0.30

Note 8: Variable Interest Entities

Change in Accounting Policy

On November 1, 2004, we adopted the CICA's new accounting requirements on the consolidation of variable interest entities ("VIEs"). VIEs include entities where the equity is considered insufficient to finance the entity's activities or for which the equity holders do not have a controlling financial interest. The new rules require that we consolidate VIEs if the investments we hold in these entities and/or the relationships we have with them result in us being exposed to the majority of their expected losses, being able to benefit from a majority of their expected residual returns, or both, based on a calculation determined by standard setters. We consolidated our customer securitization vehicles as at November 1, 2004. Results for prior periods were not restated for this change.

On April 29, 2005, we completed the restructuring of our customer securitization vehicles by either terminating or changing the terms of our swaps with the VIEs and amending some of the rights of note-holders in the VIEs. As a result, they no longer met the criteria for consolidation. The impact on our Consolidated Statement of Income of deconsolidating these vehicles on April 29, 2005 was an increase in non-interest revenue, other of $44 million, an increase in income taxes of $7 million and an increase in net income of $37 million, representing the reversal of the unamortized mark-to-market losses on swaps that had been charged against opening retained earnings.

During the year ended October 31, 2006, we adopted new accounting guidance that provides additional clarification on VIEs and their consolidation requirements. There was no material impact on our consolidated financial statements as a result of this accounting guidance.

Customer Securitization Vehicles

Customer securitization vehicles (also referred to as bank-sponsored multi-seller conduits) assist our customers with the securitization of their assets to provide them with alternate sources of funding. Total assets held in unconsolidated customer securitization vehicles amounted to $25,465 million as at October 31, 2007 ($25,791 million in 2006), of which $17,536 million relates to Canadian assets, and the balance are U.S. assets. These vehicles provide clients with access

to financing in the commercial paper markets by allowing them to sell their assets into these vehicles, which then issue commercial paper to investors to fund the purchases. In almost all cases, the seller continues to service the transferred assets. If there are losses on the assets, the seller is the first to take the loss. We do not sell assets to or service the assets held by these customer securitization vehicles. We earn fees for providing services related to the securitizations, including liquidity, distribution and financial arrangement fees for supporting the ongoing operations of the vehicles.

In general, investors in the commercial paper have recourse only to the assets of the related VIE and do not have recourse to us. Our exposure to losses relates to our investment in commercial paper issued by the vehicles, derivative contracts we have entered into with the vehicles and the liquidity support we provide through standby letters of credit and commitments to extend credit. We use our credit adjudication process in deciding whether to enter into these agreements just as we do when extending credit in the form of a loan. To the extent that we have purchased commercial paper, our exposure under the liquidity facilities is reduced by an equal amount. As at October 31, 2007, we had a net exposure of $5,564 million from commercial paper held ($448 million in 2006) classified as trading securities.

During the year ended October 31, 2007, we changed the nature of the liquidity lines offered to certain of our Canadian customer securitization vehicles to global style liquidity lines, which have objective criteria for determining when they can be drawn upon. Previously, we offered market disruption liquidity lines, which had more subjective criteria. The total contractual amount of this support was $31,475 million as at October 31, 2007 ($32,603 million in 2006), of which $20,756 million related to Canadian facilities and the balance related to U.S. facilities. No amounts were drawn as at October 31, 2007 and 2006. Included in backstop liquidity facilities in 2006 was $634 million related to a credit facility that has since been terminated. None of these facilities were drawn upon as at October 31, 2007 and 2006.

Derivative contracts entered into with these vehicles enable the vehicles to manage their exposures to interest and foreign exchange rate fluctuations. The fair value of derivatives outstanding with these VIEs and recorded in our Consolidated Balance Sheet was a derivative liability of $20 million as at October 31, 2007 ($5 million in 2006).

Our ownership of asset-backed commercial paper in two of the vehicles caused us to be exposed to the majority of the expected losses and they have been consolidated. Included in our Consolidated Balance Sheet at October 31, 2007 were assets of $311 million classified as other assets and commercial paper of $65 million classified as a deposit liability.

Structured Finance Vehicles

We facilitate development of investment products by third parties including mutual funds, unit investment trusts and other investment funds that are sold to retail investors. We enter into derivatives with these funds to provide the investors their desired exposure and hedge our exposure from these derivatives by investing in other funds. We also sponsor VIEs that provide investors access to debt portfolios through the issuance of commercial paper. We consolidate those VIEs where our interests expose us to a majority of the expected losses or residual returns, or both. Total assets and our exposure to losses in these consolidated VIEs were $440 million as at October 31, 2007 ($470 million in 2006). Total assets held by the VIEs in which we have a significant variable interest but we do not consolidate totalled $2,365 million as at October 31, 2007 ($762 million in 2006). Our exposure to loss from VIEs related to this activity is limited to the amount of our investment, which totalled $553 million as at October 31, 2007 ($216 million in 2006).

Bank Securitization Vehicles

We use bank securitization vehicles to securitize our Canadian mortgage loans and Canadian credit card loans either for capital management purposes or to obtain alternate sources of funding. The structure of these vehicles limits the types of activities they can undertake and the types of assets they can hold, and they have limited decision-making authority. Total assets held by these vehicles amounted to $6,552 million as at October 31, 2007 ($6,803 million in 2006), all of which relate to assets in Canada. We are not required to consolidate our bank securitization vehicles. More information on our rights and obligations related to these vehicles can be found in Note 7. In addition to the interests described in Note 7, we also provide liquidity support to our bank securitization vehicles for the face value of the commercial paper outstanding. We use our credit adjudication process in deciding whether to enter into these agreements, just as we do when extending credit in the form of a loan. The total contract amount of the liquidity support was $5,100 million and $5,000 million as at October 31, 2007 and 2006, respectively. No amounts were drawn at October 31, 2007 and 2006. At October 31, 2007, we held $367 million of the commercial paper issued by these vehicles.

During the year ended October 31, 2007, we changed the nature of the liquidity lines offered to bank securitization vehicles to global style liquidity lines, which have objective criteria for determining when they can be drawn upon.

Derivative contracts entered into with these vehicles enable the vehicles to manage their exposure to interest rate fluctuations. The fair value of derivatives outstanding with these vehicles and recorded in our Consolidated Balance Sheet was a derivative liability of $52 million as at October 31, 2007 ($27 million in 2006).

Credit Investment Management Vehicles

Credit investment management vehicles provide investment opportunities in customized, diversified debt portfolios in a variety of asset and rating classes. We earn investment management fees for managing these portfolios.

We hold interests in high grade Structured Investment Vehicles ("SIVs") and act as asset manager. Total assets held by these SIVs totalled $22,754 million as at October 31, 2007 ($28,892 million in 2006).

Our exposure to loss relates to our investments in these vehicles, derivatives contracts we have entered into with the vehicles and the liquidity support we provide through standby letters of credit, and commitments to extend credit or purchase senior debt issued by the SIVs. Our investment in the capital notes of the SIVs is recorded in available-for-sale securities in our Consolidated Balance Sheet, and was $53 million as at October 31, 2007 ($76 million in 2006). We have provided a funding commitment of $1.3 billion to purchase senior notes issued by the SIVs. As at October 31, 2007, $350 million was drawn and included in the amount disclosed as available-for-sale securities. The total contract amount of letters of credit for backstop liquidity facilities was $221 million as at October 31, 2007 ($184 million in 2006); no amounts were drawn at October 31, 2007 and 2006. The fair value of our derivative contracts outstanding with the SIVs and recorded in our Consolidated Balance Sheet was a derivative liability of $11 million as at October 31, 2007 ($18 million in 2006). We are not required to consolidate these SIVs. Subsequent to the year ended October 31, 2007, an additional $904 million was drawn against the funding commitment for the purchase of senior debt.

Compensation Trusts

We have established trusts in order to administer our employee share ownership plan. Under this plan, we match 50% of employees' contributions when they choose to contribute a portion of their gross salary toward the purchase of our common shares. Our matching contributions are paid into trusts, which purchase our shares on the open market for payment to employees once employees are entitled to the shares under the terms of the plan. Total assets held by our compensation trusts amounted to $825 million as at October 31, 2007 ($890 million in 2006). We are not required to consolidate these compensation trusts and we have no exposure to loss from these trusts.

Capital Trusts

BMO Subordinated Notes Trust (the "SN Trust") was created in 2007 to issue $800 million of BMO Trust Subordinated Notes – Series A. SN Trust used the proceeds of the offering to purchase a senior deposit note from the Bank. We are not required to consolidate the SN Trust. Refer to Note 18 for more details on the subordinated notes issued by the SN Trust.

We also provide liquidity support amounting to $30 million to the SN Trust. As at October 31, 2007, $5 million had been drawn.

BMO Capital Trust (the "Trust") was created to issue BMO Capital Trust Securities ("BOaTS"). As at October 31, 2007, the Trust had assets of $3,140 million ($3,180 million in 2006). The Trust is a VIE which we are required to consolidate. Refer to Note 19 for more details on the BOaTS.

Other VIEs

We are involved with other entities that may potentially be VIEs. This involvement can include, for example, acting as a derivatives counterparty, liquidity provider, investor, fund manager or trustee. These activities do not cause us to be exposed to a majority of the expected losses of these VIEs or allow us to benefit from a majority of their expected residual returns. As a result, we are not required to consolidate these VIEs. Transactions with these VIEs are conducted at market rates, and individual credit or investment decisions are based upon the analysis of the specific VIE, taking into consideration the quality of the underlying assets. We record and report these transactions in the same manner as other transactions. For example, derivatives contracts are recorded in accordance with our derivatives accounting policy as outlined in Note 9. Liquidity facilities are described in Note 6.

Note 9: Derivative Instruments

Change in Accounting Policy

On November 1, 2006, we adopted the CICA's new accounting requirements for hedging derivatives. The new rules require us to record all of our hedging derivatives at fair value. Prior to November 1, 2006, we accounted for derivatives that qualified as accounting hedges on an accrual basis.

The types of hedging relationships that qualify for hedge accounting have not changed under the new rules. We will continue to designate our hedges as either cash flow hedges or fair value hedges.

Changes in the fair value of hedging derivatives are either offset in our Consolidated Statement of Income against the changes in the fair value of the risk being hedged, or recorded in other comprehensive income, unrealized gain (loss) on cash flow hedges. If the change in fair value of the derivative is not completely offset by the change in fair value of the item it is hedging, the difference is recorded immediately in our Consolidated Statement of Income.

Derivative instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other financial or commodity prices or indices.

Derivative instruments are either regulated exchange-traded contracts or negotiated over-the-counter contracts. We use these instruments for trading purposes, as well as to manage our exposures, mainly to currency and interest rate fluctuations, as part of our asset/liability management program.

Types of Derivatives

Swaps

Swaps are contractual agreements between two parties to exchange a series of cash flows. The various swap agreements that we enter into are as follows:

Interest rate swaps – counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Cross-currency swaps – fixed rate interest payments and principal amounts are exchanged in different currencies.

Cross-currency interest rate swaps – fixed and floating rate interest payments and principal amounts are exchanged in different currencies.

Commodity swaps – counterparties generally exchange fixed and floating rate payments based on a notional value of a single commodity.

Equity swaps – counterparties exchange the return on an equity security or a group of equity securities for the return based on a fixed or floating interest rate or the return on another equity security or a group of equity securities.

Credit default swaps – one counterparty pays the other a fee in exchange for that other counterparty agreeing to make a payment if a credit event occurs, such as bankruptcy or failure to pay.

Total return swaps – one counterparty agrees to pay or receive from the other cash amounts based on changes in the value of a reference asset or group of assets, including any returns such as interest earned on these assets, in exchange for amounts that are based on prevailing market funding rates.

The main risks associated with these instruments are related to the exposure to movements in interest rates, foreign exchange rates, credit quality, securities values or commodities prices, as applicable, and the possible inability of counterparties to meet the terms of the contracts.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell a specified amount of a currency, commodity, interest-rate-sensitive financial instrument or security at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts and from movements in commodities prices, securities values, interest rates and foreign exchange rates, as applicable.

Options

Options are contractual agreements that convey to the buyer the right but not the obligation to either buy or sell a specified amount of a currency, commodity, interest-rate-sensitive financial instrument or security at a fixed future date or at any time within a fixed future period.

For options written by us, we receive a premium from the purchaser for accepting market risk.

For options purchased by us, we pay a premium for the right to exercise the option. Since we have no obligation to exercise the option, our primary exposure to risk is the potential credit risk if the writer of an over-the-counter contract fails to fulfill the conditions of the contract.

Caps, collars and floors are specialized types of written and purchased options. They are contractual agreements where the writer agrees to pay the purchaser, based on a specified notional amount, the difference between the market rate and the prescribed rate of the cap, collar or floor. The writer receives a premium for selling this instrument.

Uses of Derivatives

Trading Derivatives

Trading derivatives include derivatives entered into with customers to accommodate their risk management needs, derivatives transacted to generate trading income from our own proprietary trading positions and certain derivatives that do not qualify as hedges for accounting purposes ("economic hedges").

We structure and market derivative products to customers to enable them to transfer, modify or reduce current or expected risks.

Proprietary activities include market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning activities involve managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products.

We may also take proprietary trading positions in various capital market instruments and derivatives that, taken together, are designed to profit from anticipated changes in market factors.

Trading derivatives are marked to fair value. Realized and unrealized gains and losses are recorded in trading revenues in our Consolidated Statement of Income. Unrealized gains on trading derivatives are recorded as derivative instrument assets and unrealized losses are recorded as derivative instrument liabilities in our Consolidated Balance Sheet.

Hedging Derivatives

In accordance with our risk management strategy, we enter into various derivative contracts to hedge our interest rate and foreign currency exposures.

Risks Hedged

Interest Rate Risk

We manage interest rate risk through interest rate swaps and options, which are linked to and adjust the interest rate sensitivity of a specific asset, liability, forecasted transaction, firm commitment, or a specific pool of transactions with similar risk characteristics.

In order for an interest rate derivative to qualify as a hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged, as well as how effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting either changes in the fair value of on-balance sheet items or changes in the amount of future cash flows.

Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, both retrospectively and prospectively, primarily using quantitative statistical measures of correlation. Any ineffectiveness in the hedging relationship is recognized in non-interest revenue, other in the Consolidated Statement of Income, as it arises.

Cash Flow Hedges

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted issuance of fixed rate liabilities. Our cash flow hedges, which have a maximum term of 13 years, are primarily hedges of floating rate deposits as well as commercial and personal loans.

Under the new rules, we will continue to record interest receivable or payable on the derivative as an adjustment to interest, dividend and fee income in the Consolidated Statement of Income over the life of the hedge.

To the extent that changes in the fair value of the derivative offset changes in the fair value of the hedged item, they are recorded in other comprehensive income. Any portion of the change in fair value of the derivative that does not offset changes in the fair value of the hedged item (the ineffectiveness of the hedge) is recorded directly in non-interest revenue, other in the Consolidated Statement of Income. Losses on the ineffective portion of our cash flow hedges totalled less than $1 million for the year ended October 31, 2007.

For cash flow hedges that are discontinued before the end of the original hedge term, the unrealized gain or loss in other comprehensive income is amortized to interest, dividend and fee income in the Consolidated Statement of Income as the hedged item impacts earnings. If the hedged item is sold or settled, the entire unrealized gain or loss is recognized in interest, dividend and fee income in the Consolidated Statement of Income. The amount of other comprehensive loss that is expected to be reclassified to the Consolidated Statement of Income over the next 12 months is $64 million ($42 million after tax). This will be offset by increased net interest income on assets and liabilities that were hedged.

On November 1, 2006, we remeasured our cash flow hedging derivatives at fair value. The portion of the fair value that offset the fair value of the hedged item was an $8 million gain ($5 million after tax) and was recorded in opening accumulated other comprehensive income. The ineffective portion of cash flow hedges recorded in opening retained earnings totalled less than $1 million. We also reclassified $86 million ($56 million after tax) of deferred losses related to cash flow hedges that were discontinued prior to November 1, 2006 from other assets to opening accumulated other comprehensive income.

Fair Value Hedges

Fair value hedges modify exposure to changes in a fixed rate instrument's fair value caused by changes in interest rates. These hedges convert fixed rate assets and liabilities to floating rate. Our fair value hedges include hedges of fixed rate commercial and personal loans, securities, deposits and subordinated debt.

Under the new rules, we will continue to record interest receivable or payable on the derivative as an adjustment to interest, dividend and fee income in the Consolidated Statement of Income over the life of the hedge.

For fair value hedges, not only is the hedging derivative recorded at fair value but fixed rate assets and liabilities that are part of a hedging relationship are adjusted for the changes in value of the risk being hedged (quasi fair value). To the extent that the change in the fair value of the derivative does not offset changes in the quasi fair value adjustment to the hedged item (the ineffectiveness of the hedge), the net amount is recorded directly in non-interest revenue, other in the Consolidated Statement of Income. Gains on the ineffective portion of our fair value hedges totalled $1 million for the year ended October 31, 2007.

For fair value hedges that are discontinued, we cease adjusting the hedged item to quasi fair value. The quasi fair value adjustment on the hedged item is recorded as an adjustment to the interest income/expense on the hedged item over its remaining term to maturity. If the hedged item is sold or settled, any remaining quasi fair value adjustment is included in the determination of the gain or loss on sale or settlement. We did not hedge any commitments during the year ended October 31, 2007.

When we remeasured our fair value hedging derivatives at fair value on November 1, 2006, we made a corresponding adjustment to the carrying value of the items that we hedge with those derivatives (quasi fair value adjustment). The difference between these two amounts was recorded in opening retained earnings and totalled less than $1 million. On November 1, 2006, we also reclassified deferred amounts related to fair value hedges that were discontinued prior to November 1, 2006 from other assets to adjust the carrying amount of the items that were previously hedged. Quasi fair value adjustments related to these two activities were comprised of an increase in loans of $3 million, an increase in deposits of $38 million, an increase in subordinated debt of $9 million and an increase in other assets of $6 million.

Foreign Currency Risk

We manage foreign currency risk through cross-currency swaps. Cross-currency swaps are marked to market, with realized and unrealized gains and losses recorded in non-interest revenue, consistent with the accounting treatment for gains and losses on the economically hedged item.

We also periodically hedge U.S. dollar earnings through forward foreign exchange contracts to minimize fluctuations in our Canadian dollar earnings due to the translation of our U.S. dollar earnings. These contracts are marked to fair value, with gains and losses recorded as non-interest revenue in foreign exchange, other than trading.

Embedded Derivatives

From time to time, we purchase or issue financial instruments containing embedded derivatives. The embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. To the extent that we cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value, with changes in fair value reflected in earnings. Equity-linked embedded derivatives are accounted for separately from the host instrument.

Fair Value

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value for exchange-traded derivatives is considered to be the price quoted on derivatives exchanges. Fair value for over-the-counter derivatives is determined using multi-contributor prices or zero coupon valuation techniques further adjusted for credit, model and liquidity risks, as well as administration costs. Zero coupon curves are created using generally accepted valuation techniques from underlying instruments such as cash, bonds and futures observable in the market. Option implied volatilities, an input into the valuation model, are either obtained directly from market sources or calculated from market prices.

Fair values of our derivative instruments are as follows:

(Canadian $ in millions)			**2007**			2006
	Gross assets	**Gross liabilities**	**Net**	Gross assets	Gross liabilities	Net
Trading						
Interest Rate Contracts						
Swaps	**$ 7,273**	**$ (7,697)**	**$ (424)**	$ 7,335	$ (7,929)	$ (594)
Forward rate agreements	**13**	**(8)**	**5**	114	(79)	35
Futures	**33**	**(10)**	**23**	24	(3)	21
Purchased options	**1,084**	**(1)**	**1,083**	1,274	–	1,274
Written options	**–**	**(988)**	**(988)**	–	(1,144)	(1,144)
Foreign Exchange Contracts						
Cross-currency swaps	**1,997**	**(1,239)**	**758**	1,408	(930)	478
Cross-currency interest rate swaps	**7,203**	**(7,562)**	**(359)**	3,076	(2,934)	142
Forward foreign exchange contracts	**4,842**	**(5,246)**	**(404)**	797	(1,059)	(262)
Purchased options	**262**	**–**	**262**	67	–	67
Written options	**–**	**(158)**	**(158)**	–	(73)	(73)
Commodity Contracts						
Swaps	**2,220**	**(1,988)**	**232**	3,713	(3,486)	227
Purchased options	**5,628**	**–**	**5,628**	12,115	–	12,115
Written options	**–**	**(5,374)**	**(5,374)**	–	(12,684)	(12,684)
Equity Contracts	**1,318**	**(2,458)**	**(1,140)**	312	(920)	(608)
Credit Contracts	**642**	**(570)**	**72**	169	(188)	(19)
Total fair value/book value – trading derivatives	**$ 32,515**	**$(33,299)**	**$ (784)**	$ 30,404	$(31,429)	$(1,025)
Average fair value (1)	**$ 33,817**	**$(34,629)**	**$ (812)**	$ 31,300	$(30,142)	$ 1,158
Hedging						
Interest Rate Contracts						
Cash flow hedges – swaps	**$ 60**	**$ (176)**	**$ (116)**	$ 63	$ (117)	$ (54)
Fair value hedges – swaps	**10**	**(109)**	**(99)**	7	(1)	6
Total swaps	**$ 70**	**$ (285)**	**$ (215)**	$ 70	$ (118)	$ (48)
Cash flow hedges – purchased options	**$ –**	**$ –**	**$ –**	$ 7	$ –	$ 7
Total purchased options	**$ –**	**$ –**	**$ –**	$ 7	$ –	$ 7
Cash flow hedges – written options	**$ –**	**$ –**	**$ –**	$ –	$ (9)	$ (9)
Total fair value – hedging derivatives (2)	**$ 70**	**$ (285)**	**$ (215)**	$ 77	$ (127)	$ (50)
Total book value – hedging derivatives	**$ 70**	**$ (285)**	**$ (215)**	$ 7	$ (17)	$ (10)
Average fair value (1)	**$ 69**	**$ (266)**	**$ (197)**	$ 133	$ (222)	$ (89)
Total fair value	**$ 32,585**	**$(33,584)**	**$ (999)**	$ 30,481	$(31,556)	$(1,075)
Less: Impact of master netting agreements	**$(16,403)**	**$ 16,403**	**$ –**	$(16,644)	$ 16,644	$ –
Total	**$ 16,182**	**$(17,181)**	**$ (999)**	$ 13,837	$(14,912)	$(1,075)

Certain comparative figures have been reclassified to conform with the current year's presentation.

(1) Average fair value amounts are calculated using a five-quarter rolling average.

(2) The fair values of hedging derivatives wholly or partially offset the changes in fair values of the related on-balance sheet financial instruments or future cash flows.

Assets are shown net of liabilities to customers where we have an enforceable right to offset amounts and we intend to settle contracts on a net basis.

Included in foreign exchange contracts is $nil as at October 31, 2007 ($nil in 2006) related to gold contracts.

Derivative instruments recorded in our Consolidated Balance Sheet are as follows:

(Canadian $ in millions)	Assets		Liabilities	
	2007	2006	**2007**	2006
Fair value of trading derivatives	**$ 32,515**	$ 30,404	**$ 33,299**	$ 31,429
Fair value of hedging derivatives	**70**	–	**285**	–
Book value of hedging derivatives	**–**	7	**–**	17
Total	**$ 32,585**	$ 30,411	**$ 33,584**	$ 31,446

Notes

Notional Amounts

The notional amounts of our derivatives represent the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract. Notional amounts do not represent assets or liabilities and therefore are not recorded in our Consolidated Balance Sheet.

(Canadian $ in millions)				2007				2006
		Hedging				Hedging		
	Trading	Cash flow	Fair value	Total	Trading	Cash flow	Fair value	Total
Interest Rate Contracts								
Over-the-counter								
Swaps	**$ 1,075,495**	**$ 21,644**	**$ 5,381**	**$ 1,102,520**	$ 932,782	$ 24,348	$ 627	$ 957,757
Forward rate agreements	**60,042**	**–**	**–**	**60,042**	331,270	–	–	331,270
Purchased options	**114,446**	**–**	**–**	**114,446**	109,737	4,507	–	114,244
Written options	**161,813**	**–**	**–**	**161,813**	129,333	–	–	129,333
	1,411,796	**21,644**	**5,381**	**1,438,821**	1,503,122	28,855	627	1,532,604
Exchange-traded								
Futures	**77,736**	**–**	**–**	**77,736**	204,507	–	–	204,507
Purchased options	**91,909**	**–**	**–**	**91,909**	159,975	–	–	159,975
Written options	**56,593**	**–**	**–**	**56,593**	141,475	–	359	141,834
	226,238	**–**	**–**	**226,238**	505,957	–	359	506,316
Total interest rate contracts	**1,638,034**	**21,644**	**5,381**	**1,665,059**	2,009,079	28,855	986	2,038,920
Foreign Exchange Contracts								
Over-the-counter								
Cross-currency swaps	**10,870**	**–**	**–**	**10,870**	10,489	–	–	10,489
Cross-currency interest rate swaps	**92,960**	**–**	**–**	**92,960**	72,316	–	–	72,316
Forward foreign exchange contracts	**154,142**	**–**	**–**	**154,142**	112,740	–	–	112,740
Purchased options	**6,024**	**–**	**–**	**6,024**	7,117	–	–	7,117
Written options	**8,213**	**–**	**–**	**8,213**	7,812	–	–	7,812
	272,209	**–**	**–**	**272,209**	210,474	–	–	210,474
Exchange-traded								
Futures	**1,119**	**–**	**–**	**1,119**	896	–	–	896
Purchased options	**3,346**	**–**	**–**	**3,346**	3,654	–	–	3,654
Written options	**998**	**–**	**–**	**998**	372	–	–	372
	5,463	**–**	**–**	**5,463**	4,922	–	–	4,922
Total foreign exchange contracts	**277,672**	**–**	**–**	**277,672**	215,396	–	–	215,396
Commodity Contracts								
Over-the-counter								
Swaps	**49,759**	**–**	**–**	**49,759**	65,030	–	–	65,030
Purchased options	**59,304**	**–**	**–**	**59,304**	96,479	–	–	96,479
Written options	**59,582**	**–**	**–**	**59,582**	89,796	–	–	89,796
	168,645	**–**	**–**	**168,645**	251,305	–	–	251,305
Exchange-traded								
Futures	**49,788**	**–**	**–**	**49,788**	55,339	–	–	55,339
Purchased options	**202,573**	**–**	**–**	**202,573**	161,478	–	–	161,478
Written options	**200,491**	**–**	**–**	**200,491**	172,790	–	–	172,790
	452,852	**–**	**–**	**452,852**	389,607	–	–	389,607
Total commodity contracts	**621,497**	**–**	**–**	**621,497**	640,912	–	–	640,912
Equity Contracts								
Over-the-counter	**30,303**	**–**	**–**	**30,303**	23,372	–	–	23,372
Exchange-traded	**9,097**	**–**	**–**	**9,097**	8,692	–	–	8,692
Total equity contracts	**39,400**	**–**	**–**	**39,400**	32,064	–	–	32,064
Credit Contracts								
Over-the-counter	**90,656**	**–**	**–**	**90,656**	52,395	–	–	52,395
Total	**$ 2,667,259**	**$ 21,644**	**$ 5,381**	**$ 2,694,284**	$ 2,949,846	$ 28,855	$ 986	$ 2,979,687

Certain comparative figures have been reclassified to conform with the current year's presentation.

Included in the notional amounts is $224 million as at October 31, 2007 ($935 million in 2006) related to the Managed Futures Certificates of Deposit Program. Risk exposures represented by the assets in this program are traded on behalf of customers, with all gains and losses accruing to them.

Included in foreign exchange contracts is $1 million as at October 31, 2007 ($nil in 2006) related to gold contracts.

Derivative-Related Credit Risk

Over-the-counter derivative instruments are subject to credit risk. Credit risk arises from the possibility that counterparties may default on their obligations. The credit risk associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. Derivative contracts generally expose us to potential credit loss if changes in market rates affect a counterparty's position unfavourably and the counterparty defaults on payment. The credit risk is represented by the positive fair value of the derivative instrument. We strive to limit credit risk by dealing with counterparties that we believe are creditworthy, and we manage our credit risk for derivatives using the same credit risk process that is applied to loans and other credit assets.

We also pursue opportunities to reduce our exposure to credit losses on derivative instruments, including entering into master netting agreements with counterparties. The credit risk associated with favourable contracts is eliminated by master netting agreements, to the extent that unfavourable contracts with the same counterparty cannot be settled before favourable contracts.

Exchange-traded derivatives have no potential for credit exposure as they are settled net with each exchange.

Terms used in the credit risk table below are as follows:

Replacement cost represents the cost of replacing all contracts that have a positive fair value, using current market rates. It represents in effect the unrealized gains on our derivative instruments. Replacement costs disclosed below represent the net of the asset and liability to a specific counterparty where we have a legally enforceable right to offset the amount owed to us with the amount owed by us and we intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Credit risk equivalent represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in the Capital Adequacy Guideline of the Superintendent of Financial Institutions Canada.

Risk-weighted balance represents the credit risk equivalent, weighted based on the creditworthiness of the counterparty, as prescribed by the Superintendent of Financial Institutions Canada.

(Canadian $ in millions)			**2007**			2006
	Replacement cost	**Credit risk equivalent**	**Risk-weighted balance**	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest Rate Contracts						
Swaps	**$ 7,343**	**$ 13,314**	**$ 2,959**	$ 7,405	$ 12,491	$ 2,858
Forward rate agreements	**13**	**13**	**4**	114	125	27
Purchased options	**1,050**	**1,352**	**305**	1,257	1,620	363
Total interest rate contracts	**8,406**	**14,679**	**3,268**	8,776	14,236	3,248
Foreign Exchange Contracts						
Cross-currency swaps	**1,997**	**2,650**	**764**	1,408	2,041	548
Cross-currency interest rate swaps	**7,203**	**11,560**	**2,132**	3,076	6,478	1,179
Forward foreign exchange contracts	**4,842**	**6,311**	**1,624**	797	2,233	595
Purchased options	**244**	**318**	**121**	63	129	44
Total foreign exchange contracts	**14,286**	**20,839**	**4,641**	5,344	10,881	2,366
Commodity Contracts						
Swaps	**2,220**	**8,535**	**3,016**	3,713	11,532	4,130
Purchased options	**3,056**	**10,457**	**3,419**	5,717	16,012	5,483
Total commodity contracts	**5,276**	**18,992**	**6,435**	9,430	27,544	9,613
Equity Contracts	**1,318**	**2,902**	**902**	312	1,963	662
Credit Contracts	**642**	**4,721**	**1,134**	169	2,372	542
Total derivatives	**29,928**	**62,133**	**16,380**	24,031	56,996	16,431
Impact of master netting agreements	**(16,403)**	**(29,541)**	**(7,467)**	(16,644)	(30,655)	(8,889)
Total	**$ 13,525**	**$ 32,592**	**$ 8,913**	$ 7,387	$ 26,341	$ 7,542

Included in the 2006 total are unrealized gains on hedging derivatives, which we include in the Consolidated Balance Sheet on an accrual rather than a mark-to-market basis. The excess of market value over book value for these items was $70 million as at October 31, 2006.

The total derivatives and impact of master netting agreements for replacement cost do not include exchange-traded derivatives with a positive fair value of $2,657 million as at October 31, 2007 ($6,450 million in 2006).

Transactions are conducted with counterparties in various geographic locations and industries. Set out below is the replacement cost of contracts (before the impact of master netting agreements) with customers located in the following countries, based on country of ultimate risk:

(Canadian $ in millions, except as noted)		**2007**		2006
Canada	**$ 11,686**	**39%**	$ 6,598	28%
United States	**10,867**	**36**	11,402	47
Other countries (1)	**7,375**	**25**	6,031	25
Total	**$ 29,928**	**100%**	$ 24,031	100%

(1) No other country represented 10% or more of our replacement cost in either 2007 or 2006.

Transactions are conducted with various counterparties. Set out below is the replacement cost of contracts (before the impact of master netting agreements) with customers in the following industries:

(Canadian $ in millions)	Interest rate contracts		Foreign exchange contracts		Commodity contracts		Equity contracts		Credit contracts	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Financial institutions	**$ 7,423**	$ 7,425	**$ 7,318**	$ 2,105	**$ 2,602**	$ 4,908	**$ 929**	$ 119	**$ 540**	$ 163
Natural resources	**7**	18	**175**	58	**1,368**	4,371	**–**	–	**–**	–
Governments	**360**	585	**3,411**	1,953	**42**	12	**–**	–	**–**	–
Other	**616**	748	**3,382**	1,228	**1,264**	139	**389**	193	**102**	6
Total	**$ 8,406**	$ 8,776	**$ 14,286**	$ 5,344	**$ 5,276**	$ 9,430	**$ 1,318**	$ 312	**$ 642**	$ 169

Term to Maturity

Our derivative contracts have varying maturity dates. The remaining contractual term to maturity for the notional amounts of our derivative contracts is set out below:

(Canadian $ in millions)	Term to maturity					2007	2006
	Within 1 year	**1 to 3 years**	**3 to 5 years**	**5 to 10 years**	**Over 10 years**	**Total notional amounts**	Total notional amounts
Interest Rate Contracts							
Swaps	**$ 316,453**	**$ 305,193**	**$ 243,463**	**$ 191,922**	**$ 45,489**	**$ 1,102,520**	$ 957,757
Forward rate agreements, futures and options	**436,129**	**75,328**	**30,886**	**18,077**	**2,119**	**562,539**	1,081,163
Total interest rate contracts	**752,582**	**380,521**	**274,349**	**209,999**	**47,608**	**1,665,059**	2,038,920
Foreign Exchange Contracts							
Cross-currency swaps	**1,056**	**1,015**	**2,720**	**3,698**	**2,381**	**10,870**	10,489
Cross-currency interest rate swaps	**24,179**	**23,175**	**18,400**	**21,814**	**5,392**	**92,960**	72,316
Forward foreign exchange contracts, futures and options	**158,140**	**7,578**	**7,541**	**544**	**39**	**173,842**	132,591
Total foreign exchange contracts	**183,375**	**31,768**	**28,661**	**26,056**	**7,812**	**277,672**	215,396
Commodity Contracts							
Swaps	**29,018**	**16,473**	**3,109**	**840**	**319**	**49,759**	65,030
Futures and options	**377,493**	**158,758**	**35,467**	**20**	**–**	**571,738**	575,882
Total commodity contracts	**406,511**	**175,231**	**38,576**	**860**	**319**	**621,497**	640,912
Equity Contracts	**30,793**	**2,371**	**3,189**	**2,181**	**866**	**39,400**	32,064
Credit Contracts	**10,994**	**24,928**	**38,779**	**15,116**	**839**	**90,656**	52,395
Total notional amount	**$ 1,384,255**	**$ 614,819**	**$ 383,554**	**$ 254,212**	**$ 57,444**	**$ 2,694,284**	$ 2,979,687

Note 10: Premises and Equipment

We record all premises and equipment at cost less accumulated amortization except land, which is recorded at cost. Buildings, computer equipment and software, other equipment and leasehold improvements are amortized on a straight-line basis over their estimated useful lives. The maximum estimated useful lives we use to amortize our assets are:

Buildings	40 years
Computer equipment and software	15 years
Other equipment	10 years
Leasehold improvements	Lease term to a maximum of 10 years

(Canadian $ in millions)			2007	2006
	Cost	**Accumulated amortization**	**Carrying value**	Carrying value
Land	**$ 148**	**$ –**	**$ 148**	$ 179
Buildings	**1,162**	**581**	**581**	595
Computer equipment and software	**2,782**	**1,995**	**787**	829
Other equipment	**664**	**493**	**171**	174
Leasehold improvements	**699**	**406**	**293**	270
Total	**$ 5,455**	**$ 3,475**	**$ 1,980**	$ 2,047

Amortization expense for the years ended October 31, 2007, 2006 and 2005 amounted to $390 million, $360 million and $377 million, respectively.

Gains and losses on disposal are included in other non-interest revenue in our Consolidated Statement of Income.

On October 15, 2007, we sold the office tower located at 10199 – 101 Street in Edmonton. The gain on sale was $19 million before tax, of which $6 million was recorded in the Consolidated Statement of Income. The remaining $13 million was deferred and is being recorded as a reduction in rental expense over the term of our lease in the building, which expires in 2017. The deferred gain as at October 31, 2007 was $13 million.

On September 23, 2005, we sold the office tower located at 350 – 7th Avenue South West in Calgary. The gain on sale was $58 million before tax, of which $29 million was recorded in the Consolidated Statement of Income. The remaining $29 million was deferred and is being recorded as a reduction in rental expense over the terms of our leases in the building, which expire between 2015 and 2025. The deferred gain as at October 31, 2007, 2006 and 2005 was $24 million, $26 million and $29 million, respectively.

On March 1, 2005, we sold the land and building located at 111 West Monroe Street in Chicago and concurrently entered into lease agreements at market rates for approximately 50% of the building. The gain on sale of $5 million was deferred and is being recorded as a reduction in rental expense over the terms of our leases in the building, which expire between 2013 and 2035. The deferred gain as at October 31, 2007, 2006 and 2005 was $4 million, $5 million and $5 million, respectively.

We test premises and equipment for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. We write them down to fair value when the related undiscounted cash flows are less than the carrying value. There were no write-downs of premises and equipment due to impairment during the years ended October 31, 2007, 2006 and 2005.

Lease Commitments

We have entered into a number of non-cancellable leases for premises and equipment. Our total contractual rental commitments as at October 31, 2007 were $1,296 million. The commitments for each of the next five years and thereafter are $199 million for 2008, $172 million for 2009, $147 million for 2010, $120 million for 2011, $101 million for 2012 and $557 million thereafter. Included in these amounts are the commitments related to 724 leased branch locations as at October 31, 2007.

Net rent expense for premises and equipment reported in our Consolidated Statement of Income for the years ended October 31, 2007, 2006 and 2005 was $300 million, $292 million and $245 million, respectively.

Note 11: Acquisitions

We account for acquisitions of businesses using the purchase method. This involves allocating the purchase price paid for a business to the assets acquired, including identifiable intangible assets, and the liabilities assumed, based on their fair values at the date of acquisition. Any excess is then recorded as goodwill.

First National Bank & Trust

On January 4, 2007, we completed the acquisition of First National Bank & Trust ("First National") for total cash consideration of $345 million. The results of First National's operations have been included in our consolidated financial statements since that date. The acquisition of First National provides us with the opportunity to expand our banking services in the Indianapolis, Indiana market. As part of this acquisition, we acquired a core deposit intangible asset, which will be amortized on an accelerated basis over a period not to exceed 10 years. Goodwill and other intangibles related to this acquisition are deductible for tax purposes. First National is part of our Personal and Commercial Banking U.S. reporting segment.

bcpbank Canada

On December 4, 2006, we completed the acquisition of bcpbank Canada, a full-service chartered bank, for total cash consideration of $41 million. The results of bcpbank Canada's operations have been included in our consolidated financial statements since that date. The acquisition of bcpbank Canada expands our branch network and provides our customers with greater access to banking services across the greater Toronto area. As part of this acquisition, we acquired a core deposit intangible asset, which will be amortized on an accelerated basis over 10 years. Goodwill related to this acquisition is not deductible for tax purposes. bcpbank Canada is part of our Personal and Commercial Banking Canada reporting segment.

Villa Park Trust and Savings Bank

On December 1, 2005, we completed the acquisition of Chicago-based Villa Park Trust and Savings Bank ("Villa Park"), a community bank, for total cash consideration of $76 million. The results of Villa Park's operations have been included in our consolidated financial statements since that date. The acquisition of Villa Park provides us with the opportunity to expand our banking services in the Chicago, Illinois market. As part of this acquisition, we acquired a core deposit intangible asset, which will be amortized on an accelerated basis over 10 years. Goodwill related to this acquisition is not deductible for tax purposes. Villa Park is part of our Personal and Commercial Banking U.S. reporting segment.

Future Acquisitions

Pyrford International plc

On November 2, 2007, we announced that we had reached a definitive agreement to purchase Pyrford International plc, a London, U.K.-based asset manager, for total cash consideration of approximately $50 million. The acquisition of Pyrford International plc will provide us with the opportunity to expand our investment management capabilities outside of North America. The acquisition of Pyrford International plc is subject to regulatory approval. The acquisition of Pyrford International plc is expected to close during the quarter ending January 31, 2008, at which time it will be recorded in our consolidated financial statements as the acquisition of a business. Pyrford International plc will be part of our Private Client Group reporting segment.

Ozaukee Bank

On July 10, 2007, we announced that we had reached a definitive agreement to purchase Ozaukee Bank. Under the agreement, Ozaukee Bank shareholders will receive approximately 3 million shares of Bank of Montreal. The exact number of shares will be determined based on a formula prior to closing. The acquisition of Ozaukee Bank is subject to regulatory approval and the approval of Ozaukee Bank shareholders. The acquisition of Ozaukee Bank will provide us with the opportunity to expand our banking locations into Wisconsin. The acquisition of Ozaukee Bank is expected to close during the quarter ending January 31, 2008, at which time it will be recorded in our consolidated financial statements as the acquisition of a business. Ozaukee Bank will be part of our Personal and Commercial Banking U.S. reporting segment.

Merchants and Manufacturers Bancorporation, Inc.

On July 10, 2007, we announced that we had reached a definitive agreement to purchase Merchants and Manufacturers Bancorporation, Inc. ("Merchants and Manufacturers") for total cash consideration of approximately $146 million. The acquisition of Merchants and Manufacturers will provide us with the opportunity to expand our banking locations into Wisconsin. The acquisition of Merchants and Manufacturers is subject to regulatory approval and the approval of Merchants and Manufacturers shareholders. The acquisition of Merchants and Manufacturers is expected to close during the quarter ending January 31, 2008, at which time it will be recorded in our consolidated financial statements as the acquisition of a business. Merchants and Manufacturers will be part of our Personal and Commercial Banking U.S. reporting segment.

The estimated fair values of the assets acquired and the liabilities assumed at the dates of acquisition are as follows:

(Canadian $ in millions)	2007		2006
	First National	**bcpbank Canada**	Villa Park
Cash resources	**$ 110**	**$ 47**	$ 16
Securities	**317**	**23**	54
Loans	**1,009**	**293**	247
Premises and equipment	**30**	**9**	5
Goodwill	**175**	**13**	44
Core deposit intangible asset	**37**	**5**	7
Other assets	**52**	**2**	4
Total assets	**1,730**	**392**	377
Deposits	**1,375**	**339**	296
Other liabilities	**10**	**12**	5
Total liabilities	**1,385**	**351**	301
Purchase price	**$ 345**	**$ 41**	$ 76

The allocations of the purchase price for First National and bcpbank Canada are subject to refinement as we complete the valuation of the assets acquired and liabilities assumed.

Notes

Note 12: Sale of Harris*direct* LLC

On October 6, 2005, we sold our interest in our U.S. direct investing operations Harris*direct* LLC to E*Trade Financial Corporation for cash proceeds of $827 million (US$700 million). The gain of $49 million was recorded in other non-interest revenue in our Consolidated Statement of Income ($18 million, after tax). Included in the gain was $29 million (US$25 million) representing the reimbursement by Harris*direct* LLC of mutual fund program fees related to our Harris Insight Funds.

We have provided the purchaser standard indemnifications as part of the purchase and sale agreement.

Our Consolidated Statement of Income includes the results of Harris*direct* LLC, including the gain on sale in 2005, as follows:

(Canadian $ in millions)	2005
Net Interest Income	$ 68
Non-Interest Revenue	184
	252
Non-Interest Expense	243
Income taxes	14
Net Loss	$ (5)

Note 13: Goodwill and Intangible Assets

Goodwill

When we acquire a subsidiary, joint venture or securities where we exert significant influence and account for using the equity method, we allocate the purchase price paid to the assets acquired, including identifiable intangible assets, and the liabilities assumed. Any excess of the amount paid over the fair value of those net assets is considered to be goodwill.

Goodwill is not amortized; however, it is tested at least annually for impairment. The impairment test consists of allocating goodwill to our reporting units (groups of businesses with similar characteristics) and then comparing the book value of the reporting units, including goodwill, to their fair values. We determine fair value using discounted cash flows or price-to-earnings or other multiples, whichever is most appropriate under the circumstances. The excess of carrying value of goodwill over fair value of goodwill, if any, is recorded as an impairment charge in the period in which impairment is determined.

There were no write-downs of goodwill due to impairment during the years ended October 31, 2007, 2006 and 2005.

A continuity of our goodwill by reporting unit for the years ended October 31, 2007 and 2006 is as follows:

(Canadian $ in millions)	Personal and Commercial Banking			Private Client Group				BMO Capital Markets	Corporate Services	Total
	P&C Canada	P&C U.S.	Total	Client Investing	Retail Investment Products	Private Banking	Total		Technology and Operations	
Goodwill as at October 31, 2005	$ 93	$ 568	$ 661	$ 68	$ 187	$ 72	$ 327	$ 100	$ 3	$ 1,091
Acquisitions during the year	–	44	44	–	–	–	–	–	–	44
Other (1)	–	(30)	(30)	–	–	(4)	(4)	(2)	(1)	(37)
Goodwill as at October 31, 2006	93	582	675	68	187	68	323	98	2	1,098
Acquisitions during the year	**13**	**175**	**188**	**–**	**–**	**–**	**–**	**–**	**–**	**188**
Other (1)	**–**	**(129)**	**(129)**	**–**	**–**	**(10)**	**(10)**	**(7)**	**–**	**(146)**
Goodwill as at October 31, 2007	**$ 106** (2)	**$ 628** (3)	**$ 734**	**$ 68** (4)	**$ 187** (5)	**$ 58** (6)	**$ 313**	**$ 91** (7)	**$ 2**	**$ 1,140**

(1) Other changes in goodwill include the effects of translating goodwill denominated in foreign currencies into Canadian dollars, purchase accounting adjustments related to prior year purchases and certain other reclassifications.
(2) Relates primarily to Moneris Solutions Corporation and bcpbank Canada.
(3) Relates to New Lenox State Bank, First National Bank of Joliet, Household Bank branches, Mercantile Bancorp, Inc., Villa Park Trust and Savings Bank and First National Bank & Trust.
(4) Relates to BMO Nesbitt Burns Corporation Limited.
(5) Relates to Guardian Group of Funds Ltd.
(6) Relates primarily to myCFO, Inc.
(7) Relates to Gerard Klauer Mattison & Co., Inc. and BMO Nesbitt Burns Corporation Limited.

Intangible Assets

Intangible assets related to our acquisitions are recorded at their fair value at the acquisition date. Intangible assets by category are as follows:

(Canadian $ in millions)	**2007**			2006
	Cost	**Accumulated amortization**	**Carrying value**	Carrying value
Customer relationships	**$ 71**	**$ 59**	**$ 12**	$ 23
Core deposits	**186**	**111**	**75**	70
Branch distribution networks	**140**	**106**	**34**	52
Other	**23**	**20**	**3**	7
Total	**$ 420**	**$ 296**	**$ 124**	$ 152

Intangible assets are amortized to income over the period during which we believe the assets will benefit us on either a straight-line or an accelerated basis, depending on the specific asset, over a period not to exceed 15 years. We have no intangible assets with indefinite lives. The weighted average amortization period for customer relationships is 9.6 years, core deposits 10.8 years, branch distribution networks 15.0 years and other 6.5 years, totalling 11.8 years.

The aggregate amount of intangible assets that were acquired during the years ended October 31, 2007 and 2006 was $42 million and $7 million, respectively.

We test intangible assets for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. We write them down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value. There were no write-downs of intangible assets due to impairment during the years ended October 31, 2007, 2006 and 2005.

The total estimated amortization expense relating to intangible assets for each of the next five years is $34 million for 2008, $29 million for 2009, $19 million for 2010, $14 million for 2011 and $7 million for 2012.